READINGS

IN

INDIAN ECONOMICS

Volume II

by

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Industries—General

The predominantly agricultural character of our national economy at present, and the backwardness of our industrial development even in this age of the factory and the workshop might deceive an ignorant observer of our country about the importance of our industries in the past. But the following remarks of the Industrial Commission should prove as an eye-opener in this connection. The Commission observes: "At a time when the west of Europe, the birth place of the modern industrial system was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the high skill of her craftsmen. And even at a much later period when merchant adventurers from the west made their first appearance in India, the industrial development of this country was at any rate not inferior to that of more advanced European nations."

The skill of Indians in the production of delicate woven fabrics, in the mixing of colours, the working of metals, the precious stones, the preparation of essences, and in all manner of technical art had from early times enjoyed a world-wide celebrity. There is evidence to show that Babylon traded with India in 300 B.C. Mummies in Egyptian tombs dating from 2000 B.C. have been found wrapped in Indian muslins of the finest quality. The iron industry was also very well developed. It not only supplied local wants but also enabled India to export its finished products to foreign countries. The famous iron pillar near Delhi (kili), which is nearly two thousand years old, indicates a standard of skill that has simply surprised the modern engineer. Indian steel was exported to Persia, Arabia and even England. Thus the

manufacture of steel and iron had reached a stage of high perfection in India long ago.

In fact it was on account of the products of her industries that in those days Indian trade was considered the source of all wealth and in European countries Indian manufactures were in great demand. It was this trade that lured the traders of Europe to India. After the decline of Venice and Genova, which had the monopoly of Indian trade, the Dutch and the Portuguese came on the scene. This made the merchants of England jealous of them and the East India Company was formed to carry the manufactures and commodities of India to Europe.

Although insignificant in volume in comparison with modern figures, foreign trade in those days played an important rôle in the economic life of India. The most important part of the trade was to the shores of the Persian Gulf, Burma, the Malaya Peninsula and China. The trade was first in the hands of the Arabs. It was mainly through the crusades that western Europe was brought in contact with Indian products and since then a considerable traffic both through land and water developed to the eastern end of the Mediterranean. The articles traded were such luxuries as spices, silk, precious stones and even cotton cloth. In the fifteenth century the Mediterranean route, of Indian trade *via* Afghanistan, Persia to Lebanon coast was cut off by the Turks, and the European Powers began a frantic competition to discover another route. This led, at the end of the century, to the discovery of the sea route to India by way of Cape.

The most significant feature of the foreign trade of India of this time was the one-sided importation of precious metals into India. The mercantilist Europe naturally viewed this with great anxiety. The East India Company tried to interest Indians in foreign goods but without any great success. The Company thus was forced to

depend upon the use of its capital for production in India and trade between India and her neighbours, remitting only its profits to Europe in the form of goods. The spice trade was long of great significance and the opium trade to China and the tea trade from there to England later became important.*

The industrial supremacy of India, to which mention has been made in the foregoing pages, however, did not continue for long. Though in the beginning the East India Company encouraged Indian industries as her export trade depended upon them, this policy had soon to be given up under the pressure of the British capitalist interests which wanted the company to concentrate on the export of raw materials from India required for British factories. The subsequent fate of Indian industries is too well-known. The political power won by the East India Company was deliberately employed to ruin the old Indian industries. Various other factors also contributed to this decay of our industries.† The deliberately neglectful and destructive attitude of the East India Company towards the Indian industries did not come to an end with the assumption of direct rule by the Crown in 1858. The same attitude continued, though now it took the form of a well-defined doctrine, the doctrine of *laissez-faire*. This was the time when the theory of least interference on the part of the state with the economic life of the people held its sway in England. The doctrine no doubt suited to the interests of that country in the particular stage of economic development she was passing through. These were the days of capitalist expansion in England, the world markets were open for her manufactures, and there was no other country to compete with her products either within the home market or outside it. Hence *Laissez-faire* meant all gain and no

* Capitalistic Enterprise in India : Buchanan. pp. 29-30.

† Refer the Chapter on Economic transition.

loss. But the case of India was different still the same doctrine of *laissez-faire* was inflicted upon her. This is the price of political subjection that we had to pay and which we have been paying even to this day. India being a British dependency has never been permitted to adopt an independent policy in economic matters. Her fate has always been to remain tied to the apron-strings of her foreign masters whose only concern has been to look to the interests of the mother country. The result of all this was that the Government did not give any attention to the dying industries of the country. Rather the Government propagated the idea that India with her fertile soil and trying climate was more suited to the production of raw materials to be exchanged for the manufactured goods of British factories. It was said that Indian labour is very inefficient, the hot climate of the country is enervating, people are less enterprising, and therefore modern industries cannot be developed in this country. Thus people were led to believe that India was unfit for industrialisation. Long before the transfer of power to the crown, East India Company was also working on the same lines. It took, for example, an active interest in the expansion and improvement of cotton cultivation in India. Towards the beginning of the 19th century, the company resolved to revive the indigo industry and expert planters were brought from the west Indies for the purpose. The tea industry, the premier plantation industry of India, was introduced and pioneered by the Government. Coffee plantations were also established at the instance of the East India Company. Thus by the beginning of the nineteenth century, on account of this gross indifference and apathy of the Government towards industrial development and other contributory causes, the industrial supremacy of India had vanished and she had been reduced to the position of a predominantly agricultural country. The economic ruin of India was complete.

The Beginning of Modern Industries.

By the end of the eighteenth century modern factory system had been well established in Britain. By the middle of the nineteenth century, Britain had become the workshop of the world. By this time, the indigenous Indian industries had decayed and gradually one or two modern industries had begun to appear. "The most successful new Indian enterprises appear to have been those applying steam to shipping. Steam engines were also being employed in India in a coal mine, in docks, in a paper mill, in cannon-boring, in coining money, grinding flour, silk-reeling, and in the spinning, weaving and printing of cotton, all in the neighbourhood of Calcutta where European enterprise was most in evidence. Colonel Sheath, an employee of the East India Company, started the first iron works at Arcot in Madras. These early ventures failed, because machinery, spare parts, and stores had to come by way of the Cape in sailing ships. The engineers, foremen, and sometimes even the labourers had to be brought from Britain. The regular mining of coal in India had not begun till 1814. The railways had not come into existence till 1853, when a short line was extended from Bombay, and next year a line was opened from Howrah to the Raniganj coal fields. The rapid construction of railway lines thereafter led to a rapid expansion of the coal industry and by 1890 the total production of coal increased to more than 2 million tons.

With the development of collieries and the expansion of railways some initial obstacles to the establishment of the factory industry in India were removed. Leaving aside the ill-fated Bowreah mills near Calcutta in the 1820's, which was bound to fail, the first successful cotton mill was started by a Parsee gentleman, C. N. Davar, in 1851. The number of mills increased slowly at first and it was after the cotton boon of the early sixties had come and gone that it became considerable. The first jute

spinning mill was started by an Englishman in 1855 at Rishra, near Serampore (Calcutta) followed after 4 years by the first power loom factory just outside Calcutta. Thus by the middle of the nineteenth century one or two modern industries came to be established in India mainly due to the initiative of foreigners. But the progress was very slow and not at all satisfactory.

Indians feel countrys' industrial backwardness :—It was by the eighties of the last century that along with the growth of political consciousness in the country, Indian leaders and economists also began to lament at the industrial backwardness of India. Dadabhai Naoroji and Ranade held our industrial backwardness responsible for the frequent famines from which the country suffered, and for the grinding poverty of the masses. The Famine Commission (1880) also pointed out that one of the main reasons for the recurrent famines in India was its utter dependence upon agriculture. The Famine Commission of 1901 also emphasised the same point and insisted upon the industrialisation of the country. The Indian economists began to explode the theory that nature had destined India to remain forever an agricultural country. The rapid development of industries in Japan during a surprisingly short period was also a great thing that brought the weakness of Indian condition in the front. What difference a sympathetic and patronising Government can make in the economic life of the people was made crystal clear by the example of Japan and the criminal negligence of Indian industries by the Indian Government stood in a woeful contrast. Ranade appealed to Indian capitalists to invest their capital more and more in industries and to the young generations of the literary castes to abandon their traditional aversion to manual labour and to fit themselves for industrial enterprise.

This economic discontent in the country was growing side by side with the political discontent. And the

alliance of the two, as demonstrated by the institution of the Indian Industrial Conference in 1905 in association with the Indian National Congress, was no matter for a surprise. The agitation that spread in the country to secure the annulment of the notorious partition of Bengal only helped to strengthen the alliance. This led to the great Swadeshi movement in the country and the boycott of the British goods was only a negative expression of the same feeling. There was a great ferment in the country. Numerous factories were started by Indians, specially for the manufacture of piece-goods, soap, matches, pencils, glass, and cutlery, and Swadeshi stores were established where the products of these factories came to be sold. But most of these new enterprises failed partly owing to want of practical training, and business experience and partly due to State's wilful negligence and apathy. For a long time the State did nothing beyond the provision of a very imperfect technical and industrial education, and the collection and dissemination of some commercial and industrial information, and the organising of a few industrial exhibitions or publishing some literature on Indian industries. In 1905 at the initiative of Lord Curzon a separate Imperial Department of Commerce and Industries was established. But all this was very inadequate. And if sometimes a Provincial Government, as U.P. or Madras, tried to evince somewhat more active interest in the development of industries in the province, its enthusiasm was damped by the higher authorities. Anyway the fact remains that the Government could not turn to good account the enthusiasm that the Swadeshi movement generated in the country for the development of her industries. The Government also allowed the railway companies to continue their differential freight rates to the detriment of our industries. It also did not check foreign competition by either levying protective tariffs or adopting other measures. This failure

all the more convinced the people of India that without the active support and patronage of the state at least in the initial stages, no industrial development in the country was possible.

Thus before 1914 India was extremely poor in industries. Lack of industrial enterprise and ignorance on the part of the people, in the beginning and lack of ingenuity and foresight still, have also been to some extent responsible for our slow industrial development. The only industries which were large and well-established during the pre-war days were the cotton textile of Bombay, the jute industry of Bengal, and the coal mining industry of Bihar, Orissa and Bengal. The oil industry had been developed in Burma and tea in Assam. Excepting the cotton industry, all others were European enterprises. Iron and Steel and cement industries were also introduced during the pre-war years. The Tata Iron and Steel Company at Jamshedpur started in 1907 was of course a landmark in the history of industrial development in India and was the first concern to manufacture steel on a large scale. It was a purely Indian enterprise. Another industry that showed signs of progress during this period was that of supplying electricity for power and light. The development of this industry was also to come later and due to the efforts of the Tatas. Besides the above industries, other-ones like jute and cotton presses, paper mills, rice mills, sugar factories, leather works, engineering workshops etc., had come into existence, but they were few and not very important at that time.

Industrial development during the war (1914-1918) :—The first Great War brought about an unprecedented opportunity for the development of Indian industries. Imports from enemy countries specially Germany were absolutely cut of and even allied countries could not supply manufactured articles to India, first on account of their pre-occupation with production for war material

and secondly on account of shortage of tonnage due to enemy action and increased war demand resulting in transport difficulties. The creation of special demand due to war requirements was also an encouraging factor. Thus India was face to face with a vast opportunity. But she was utterly unprepared to make use of it. There was the difficulty of getting essential machinery and materials from foreign countries as she had no machine manufacturing industry of her own. There was a serious scarcity of technical and chemical experts, shortage of wagons, coastal vessels, coal, cooking plant and skilled labourers. Above all, the apathy of the Government was there as usual. Therefore nothing substantial could be done in the field of industrial development of the country even during the war period and it was under our very nose and to our great disappointment and disgust that we saw foreign countries like Japan and U.S.A. building up their trade relations with India on a much wider scale and capturing our local markets.

In spite of this, war was a great eye opener both for the people and the Government also to some extent. Indians for the first time realised the danger of their utter dependence on foreign countries for even some of the necessaries of life, and the British Government found that the help of India in Eastern war theatres would have been enormously great had India been an industrially developed country. Therefore, even the recalcitrant Government felt called upon to do something, however inadequate it might have been to the needs of the situation. The Industrial Commission was appointed by the Government in 1916 to examine the whole question of industrial development in India and the manner in which the Government could give direct encouragement to industrial enterprise. The Commission's report was published in 1918 in which it was specially emphasised that the Government should take

an active interest in the industrialisation of the country to make it more self-sufficient. The Commission also recommended the creation of an expert technical staff to advise the Government in these matters and the appointment of Provincial Boards was also suggested. In the meanwhile in February, 1917 the Indian Munitions Board had also been established by the Government to make the utmost use of Indian resources from war point of view. This also helped the development of indigenous industries to an extent by direct purchase of stores in India, the diversion by means of the priory system and control over Home indents of all orders from U. Kingdom and elsewhere to Indian manufacutrers, and the rendering of advice and information to those prepared to establish new industries in India. Thus a number of industries, particularly cotton, jute, iron and steel, leather, engineering industries, manufacture of chemicals, mineral acids, paper, glass, cement, cutlery, fertilizers, paints, varnishes, surgical instruments etc., got considerable encouragement. Provincial and Central Departments of industries were also established after the war as recommended by the Industrial Commission. To meet the exigencies of war finance, import duties were also enhanced. But with all these tinkerings a little here and a little there, the fundamental fact of our industrial backwardness remained and the opportunity that war gave went unavailed due to several difficulties and handicaps in our way.

Post-war boom and depression :—With the end of the war came the short-period boom when a feverish industrial activity was noticed. A number of new floatations on an unprecedented scale came on the scene in the expectation of the continuation of high war-time profits, and an increased demand for goods that remained suppressed during the war days. This mania for company floatation was especially confined to the years 1919-21. But the boom conditions were not to continue for long

and soon the tide turned. There now set in a period of depression and a large number of liquidations of companies and firms began to take place. The causes of this depression were more than one. The expectation of a firm demand and high prices was not fulfilled as the tremendous destruction wrought by war had exhausted the countries of the world. The policy of deflation that the different countries followed as a measure to rehabilitate their currencies after the war further reduced the consuming power of the people. Moreover the big fall in the exchange value of the rupee in 1920-21 meant a great embarrassment to the importers who had counted upon high exchange, and the full effects of the previous high exchange was now felt by the exporters. The subsequent rise in the exchange value of the rupee in 1924 only helped to prolong the trade depression as its effect was to further intensify the competition of foreign goods in the Indian market. The world economic depression that began in 1929 with the Wall Street Collapse had a further depressing effect on the Indian economic life which being mostly dependent on agriculture suffered much more than the industrialized countries of the west. The effect of depression in agricultural prices on Indian industry was naturally unfavourable. Under the stress of currency depreciation and dumping by foreign countries to ameliorate their own economic conditions, Indian industry had to face much foreign competition and hard times. Thus it may be fairly correctly stated that the post-war depression in Indian industry continued till it was again caught in the grip of the world depression of 1929 and after. It is true that the history of all economic activity has not been of dead uniformity during all this period, and the fortunes of different industries have varied from one another at different times. But as a general conclusion the above statement gives the correct position.

One very important development in the industrial history of our country in the post-war period has been the acceptance of the policy of discriminating protection by the Government on the recommendations of the Fiscal Commission appointed in October, 1921. How far this change in the Government policy from the pre-war policy of *laissez-faire* was adequate to meet the needs of industrial advancement of India, is a question that shall be considered separately? Here, we need only point out so much that as a result of the adoption of this halting policy of discriminating protection, some industries in the country secured protection the effect of which must of course have been to give them a little encouragement and strength in facing the otherwise unwelcome times of post-war depression. The Iron and Steel industry, the Cotton Textiles, the Sugar industry, and the Paper and Match industries are the leading examples in which cases protection has been granted and as a result of which an impetus has been given to their development.

Post-Depression recovery and recession:—The world economic depression, that had thrown the economic life in different countries and with them in India also out of gear, had begun to show the signs of its lifting up during and after 1932. India was no exception to it. The Iron and Steel, the Cotton, the Cement, the Sugar, and the Jute and the Paper—all the manufacturing industries showed great increases of production. As already mentioned protection was an important factor in this development. The large funds obtained from the export of gold from India since 1931 flowed for industrial investment and the spirit of Swadeshi has also greatly helped the industrial expansion of the country in recent years. The increased purchasing power in the hands of the agriculturist population due to recovery in agricultural prices also meant greater demand for the products of industries. All this led to great activity in the field of industrial production

which the stock exchanges clearly manifested. There appeared again symptoms of over-confidence leading to speculation and over-trading. In such circumstances, a set-back was only natural and it was experienced in the year 1937-38 in India also with other countries of the world. It was with the breaking out of the second world-war, that conditions underwent a change for the better. How far India has been able to avail of the opportunities offered by this war, however, is an important question to merit our attention in a separate paragraph.

The present war and Industrial development:— The war created a great opportunity for the Indian industries. The imports of manufactured articles ceased and over and above this the Government placed huge orders with the factories in India for military purposes. Thus there was an unprecedented boom in Indian Industries. Prices touched the skies and even on such high prices manufactured articles were not available in the market. There was a virtual famine of those manufactured articles which were imported in India during peace time such as machinery, tools and implements and other iron goods, chemicals, rubber goods, hardware, etc. But even those goods which were produced in the country the shortage was very acute indeed. The Indian factories were working night and day without any rest—even then the home demand, and Military demand could not be satisfied.

The Supply Department did establish certain factories for supplying war materials specially armament factories, clothing factories, leather factories, etc., to supply war materials to Indian military. At Bangalore a factory has been set up to repair the planes. This has been a real and substantial contribution of war to Indian Industrial development. These factories will become a permanent feature after war. But this seems insignificant in the face of a great opportunity which was offered to the country by the war and which was lost due to un-prepared-

ness of the country and unsympathetic attitude of the State.

If the State sincerely wished to avail this opportunity for rapidly industrialising India much could be done in this respect. Automobiles, aeroplanes, heavy armaments, hardwares, machine industry could be easily developed in India. Only if the Government cared to do it, machinery could be imported by the Government from U.S.A. in the beginning of war and all these industries could be developed, as was done in Australia, Canada, New Zeland etc. But this opportunity was denied to India so that the Indian markets may not be lost to British manufacturers after the war was over. Thus we find that a few large scale industries and some cottage industries only could get a fillip during the war period.

But there has been a very harmful affect on the Indian factories of the war conditions. The plant and other equipment is being used night and day and the depreciation is very rapid. But it is not being replaced by new plant. Thus the machinery and other equipment in Indian mills is being made to do too much and very soon it will have an adverse affect on the production in India. Just after the war for some time it will not be possible for Indian industrialists to get new plant because the countries manufacturing these machines will have to supply the same to their home factories. The home demand will be so great that for some time it will not be possible to export the machines to India.

In brief we can say that a great opportunity has been lost. But all the same war did contribute towards the industrial development of the country to some extent.

Our Industrial backwardness and future potentialities :—The above review of the recent history of industrial development in India is self-expository. There is no doubt that from the beginning of the factory industry

in the middle of the 19th century the industrialisation of the country has passed through alternate periods of progress and set back, but on the whole it is a case of constant and regular expansion both in its intensiveness as well as its diversity, and the pace has been more accelerated in the post-war period than in the pre 1914 war days. But the importance of this statement should not be over-stated or over-estimated. The stage of industrialization that India has achieved during the past nearly hundred years is by no means satisfactory. It is a woeful story of a chequered and stunted growth not in any way commensurate with country's resources or her requirements. What has been actually done in the field of industry is nothing in comparison to what could have been easily done in better and more encouraging circumstances. The result is that our whole industrial picture is very irregular, incomplete and blurred. There are a number of vital gaps that are still to be filled and without which we can never put any serious claim to our industrial efficiency and growth. We have so far not developed the basic industries of machine manufacturing or chemical industries to a satisfactory extent. The necessary machinery and other equipment for setting up modern industries have still mostly to be imported. Our demand for railway rolling stocks, power plants, stores and replacement parts etc., is met by foreign products. "The chemical and engineering industries are universally recognised to be the starting point in modern industrial development, but in India we have hardly yet made a beginning in these directions." When on the one hand we lack some of the very import industries of the modern times, in other cases we have reached the verge of over-production. Cotton - textiles, sugar, cement, certain varieties of paper, steel and matches, are some examples where we have reached either the stage or very near the stage of national self-sufficiency. This shows we have

been hesitant in breaking new ground. Lack of industrial enterprise is said to be one reason for this. It is difficult to say how far this is the result of circumstances prevailing in the country and how far it should be taken as an inherent trait of our national character. Any decisive opinion can be fairly expressed only after necessary and adequate atmosphere for industrial development has been created in the country by the State through its active co-operation and its reactions and results studied. The fact, however, remains that "judged by western standards, our industrial achievements must be regarded as being extremely poor in quality and quantity."

Here it is necessary to sound a note of caution. There has been enough of ill-meaning propaganda that India by nature is destined to remain a raw material producing country for the west. But with the passage of time people are now getting rid of this false notion. The facts of our man and material resources give a direct lie to such propagated mis-conceptions. We have an abundance and a large variety of raw materials and of minerals. Our forest resources are vast and varied. "They yield materials for various industrial purposes such as the manufacture of paper pulp, matches, tea-chests, tool handles etc. They also provide valuable tanning materials, certain essential oils, gums, waxes, and resins." Development of transport facilities and investigation and research work is necessary to develop these resources. Our mineral sources are quite enough to provide for most of the "key" industries. We have iron, coal, lead, zinc, manganese, high grade chromium, bauxite, tin and mica. It is true that exploitation of our mineral resources is in a very unsatisfactory state and needs much improvement. The development of hydro-electricity has opened vast resources of power for industrial development. Then we have the vast internal market and a large supply of labour. About the latter we must admit

that though conditions at present existing do not compare favourably with western standards, but the fault is not of the labour. Indian labour does not suffer from any inherent incapacity. "Given proper supervision and suitable plant, just as accurate work can be produced in India with Indian labour as in Europe." A wise improvement in their standard of living, and better general and technical education would also go a long way in improving the existing efficiency of Indian labour. The complaint about Indian capital being shy must now be looked upon as an out of date slogan. And better banking organisation can also do much. About industrial enterprise we have already said. Thus we have no hesitation in saying that India possesses all the necessary potentialities for being a highly industrialised nation. And still it has not been so so far. If there is any single factor more important than any other which can be fairly held responsible for this slow industrial development of India, it is the criminally negligent attitude of the Indian Government. It is only under the active patronage of the state that substantial progress in industrialization can be achieved. And so long as we do not have it, industrialization of India must remain only an idle dream. But this calls for a revolutionary change in the character of our Government which should not remain tied to the apron-strings of a foreign imperialism. We are driven to the border line of politics and economics and we must content with the statement of mere conclusions rather than discuss the ways of achieving them. That is active politics.

Benefits of industrialization :—Before concluding this general chapter on industries of India, there remains an important question that should be given the necessary thought. Would industrialization be a desirable objective for India, sometimes the question is put? It may be pointed out in the interest of clarity of thought

at the very start, that by industrialization the reference is not to industries in general but to modern large-scale industries only. Let us, therefore, first discuss a bit in detail this question of modern industries and their suitability to India.

There is no dearth of such persons, and they include amongst them some of the most well-known and respected leaders of Indian public opinion, as have not hesitated to shower very sweeping condemnations on modern industrialism on all conceivable grounds, moral and spiritual, political and economic, cultural and social. If these sweeping pronouncements are subjected to a critical examination, they would be found to consist of several fallacies, and much confusion of thought. One such statement, for example, always ready at hand is that because India possesses large supplies of labour and dearth of capital, hence large-scale factory industries would not suit her. In the opinion of the authors to support the argument about labour with that about the capital is wrong and unscientific. Our large labour supplies may justify our banning mechanised production, is one thing. But in spite of the vast resources we possess, to argue that for want of liquid capital (money capital) in the country at present modern industrialism is not suited to our country is hopeless confusion of thought. Existence of money capital in the country at best can determine our pace of industrialization, but to make it a criterion to decide about the suitability of modern industry to a country is basically wrong. Improvement in the credit and banking organisation and policy of the country, borrowing of foreign capital on right terms, and adopting a helpful currency policy are some of the known ways of improving the capital situation in a country. Then industrial development itself in its turn becomes a source of new capital required for further development of industries. Thus to mix the two arguments of labour and capital is wrong.

In our discussion of this problem, as of any other problem, our first concern should be to hold to logic and scientific reasoning without caring for the conclusions at which we might reach. Let us then first make our issues clear-cut.

The first and the basic fact that we have not to forget is that the aim of all economic activity should be to enhance the total human welfare, and not only the so-called economic welfare which would always remain only a part of it. We have to so marshall our man-and-material-resources as to achieve the above objective as approximately as possible. It is from this view point that we have to decide all kinds of economic activity, it may concern either agriculture, small-scale industry or large-scale industry. If we examine the conception of total human welfare a bit in detail, we should find it consisting of economic, and spiritual welfare within the framework of a just social order. In other words our economic system should be so organised that it provides to the people an efficient standard of existence with equal and adequate opportunities for the development of a fuller self. It is possible only by reconciling the mutual claims of maximum production, equitable if not equal distribution, and the development of human personality as amongst themselves. Hence it would be wrong to start with predilections for and prejudices against any particular form of industrial or agricultural activity.

Another point that needs clarification is about making necessary distinction between industrialism as such and its present capitalist form. The evils of one have not to be confused with those of the other. Let us first discuss the disadvantages of large scale production as such, that is of the use of large-scale machinery in production independent of the social order in which the above production is carried on. One very patent criticism of the large-scale mechanised production is that labour in

a modern factory is not creative for the majority of the workers and hence is not conducive to the development of human personality. It is said that factory work is soul-killing. Now, the first thing to be remembered in this connection is that no such general and sweeping remark about the nature of machine-work can be made. Innumerable examples in handicraft production can be given where the worker has little chance for the development of any creative faculty and the work is as monotonous as can be. Similarly machine-work also calls for intelligence, watchfulness and responsibility—all of them qualities that produce a good effect on human character. It also affords opportunities for thinking out new improvements in the manufacturing processes and making inventions. No doubt machine has killed in many respects the old type of skill existing in form of manual dexterity and artistic craftsmanship, but it has in their place introduced forms of new skill required in technical expertness, all round adaptability, or versatility, inventive, ability and trained judgment. It is also a fact that there is to an extent monotony and boredom and an element of drudgery involved in machine work, but no one can also dispute the claim of machinery to have reduced much human toil, meaning heavy and exhausting labour, and also monotony in the sense of tedious work arising out of repetitions of the same process again and again. It is the monotonous type of work which the machine is best filled to take up and therefore to remove monotony we require not less but more machinery. Then there are a number of other advantages concerning speed, accuracy, augmentation of human capacity to do many new kinds of work and mobility of labour, which have to be credited to the account of machinery when estimating its value to modern society.

Another important charge against modern large-scale machine production is that it results in concentra-

tion of vast economic power in a few hands which can never be good from the social standpoint. It must be admitted that there is a good deal of element of truth in this criticism, it is permissible to argue that even socialised production may not be able to remove this danger point altogether. The reason given is this. Those persons, no matter they are independent entrepreneurs or state employees of a socialist country, who would control the economic machinery would come to wield much power that may be used for good or evil. And unless human nature undergoes a revolutionary transformation, and man becomes pervaded cent per cent with the moral sense of his duty to the nation, the chances of misusing such power would by no means be absent. Against the strength and validity of this argument it needs be stressed that under a socialised system of production where profit motive will be replaced by the nobler and more elevated motive of social service, the whole national environment is bound to undergo a great change with its wholesome effects on human character. And this strengthened by an effective democratic control should not leave any such danger as the above argument presumes.

In addition to the above disadvantages of machinery, there are a few others also such as regarding exploitation of labour, unemployment; national and imperialist conflicts etc., that are also pointed out by the antagonists of the modern machine. All these charges are valid, but they are not inherent in industrialism as such. Much of the condemnation that we hear of machinery is provoked by the consideration that so far the introduction of machinery in all countries has taken place under circumstances which prevented any attempts being made to safeguard the interests of workers and the general public. Another drawback has been due to lack of planning in the economic life of the people. With the growth of social and labour legislation as a result of organised labour and also

introduction of some planning in one form or another under state control, these defects have been to an extent lightened. But so far as the existing capitalist order remains intact, these disadvantages also must be there in main.

From the above discussion of the advantages and disadvantages of the use of large scale production our previous conclusion that no general statement can be made is only confirmed. When we consider the question both on theoretical as well as on practical grounds we cannot but admit that it is impossible for India to ban the use of the modern machine altogether. First, whatever may be the future of world after this deadly warfare, one thing is certain that human ingenuity is not going to discard the fruits of the modern science in any fit of blank idealism and India would certainly not like to drive its lonely furrow nor would it be possible for it to do so. Because that would be the way to suicide which no living nation would be prepared to accept with equanimity. Secondly the exigencies and needs of a modern civilized existence, of which defence requirements are a vital part, cannot do without the use of the modern machines. Our defence requirements would require the development of many large-scale key industries and in the interest of national security they have to be provided for. Lastly, there is the problem of providing for our growing population. Machine production means greater speed and larger quantity and thus it may be necessary to meet the increasing and varied wants of an expanding people. All these considerations constrain us to arrive at the conclusion that in the future scheme of economic planning, the big machine must have its due place in India as well. Of course it must be controlled in the interest of social welfare and should not be permitted to make man its servant, as is the case to-day. This, however, would be possible only under changed and juster economic relations in society.

When and how would they be achieved is not a question that we should pursue in these pages. But admitting the place of the modern factory does not preclude the small-scale industries altogether. In any plan of the future industrialization of India, the claims of all the three kinds of industries, large-scale, medium-scale, and small-scale, will have to be adjusted in the interest of maximum total national welfare. Such a planned industrialization for India, therefore, it is a necessity for ameliorating our economic position. In addition to the above advantages of large-scale industry, there are a few others that it can claim with the medium and the small scale industry also.

In any plan of national economic regeneration, agricultural reform is unavoidable. The basic problem of our agricultural industry is excessive pressure of population on land. To remedy this situation, altenative occupations must be found out for the surplus population at present engaged in land cultivation. This requires industrialization of the country. Hence requirement of agricultural reform is one great point in favour of industrial development of India.

India's industrialization would also mean greater diversity of national occupations. This is good for country's economic security because it is never wise and safe to keep all our eggs, in one basket. This is, however, the condition at present. Eighty per cent of our teeming millions depend upon agriculture.

Increase of the national wealth would be a third point in favour of developing our industries. This would make possible an improvement in the standard of living of our people which is highly miserable at present. The improved taxable capacity of the people would also give more revenues to the state which thus would have larger funds for schemes of social and national welfare.

Existing unemployment in the middle class people would also be reduced by expansion of industries.

Besides the above economic advantages, industrial development is bound to produce a favourable re-action on our national character by providing a wider and varied scope for aptitude and talent. Intellectual alertness, exactness in thought and action, and absence of conservatism with a readiness to take to change are some of the qualities which are found in an industrial population and are worthy of promotion by every nation.

To conclude our discussion, then, we must state that industrialization of India based on a well-co-ordinated national plan and giving place to all kinds of industries, the large-scale, the medium scale, and the small-scale, is a very desirable ideal that the country must place before itself. But the first and the foremost essential condition for the achievement of this objective of industrial development is the etablishment in the country of an independent national government which would be free to plan the whole national life in all its aspects in the real interests of the people. State-planned and state-controlled and if and where necessary state-owned industrial development of India which would also fit in the whole picture of our national planning, should be our only objective, any departure from which, instead of solving our existing problems, would only perpetuate and aggravate them. To repeat, for this we first require the establishment of a truly democratic and national regime in the country.

CHAPTER XVII.

INDUSTRIES—OUTSTANDING PROBLEMS.

Need for Planning:—The foregoing discussion about the existing industrial position of India must convince us of its extreme backwardness on the one hand and the great urgency of industrial development on the other. No serious student of Indian Economics would doubt to-day that without sound and rational industrialization of the country, the starving millions of India can be helped on to a happy, efficient and civilized existence in future. Hence industrialization is our great necessity.

But industrialization to be helpful in the solution of our economic problem must be on right and well-conceived lines. Planned development, therefore, is the first essential requisite that must be fulfilled. The industrial development in the country so far has suffered from this grave defect, the evil results of which are so obvious now. To take a few examples only. It is due to lack of planning that we have overdeveloped some of our industries as cotton, sugar etc., to the entire neglect of the other very important ones as machine and chemical industries. By over-development here we mean a state of affairs where industries have either reached or very near reached the stage of national self-sufficiency. "If a certain industry is found to be profitable, we go on investing in it to such an extent that at last it becomes over-financed and unprofitable." Geographical factors determining the distance either between the raw material and the place of manufacture or the latter and the expected market are also disregarded. The difficulties of the Bombay mills as compared with up-country mills arise from this defect of concentrating new industries in the places of the old without any consideration of the fact that the market would

absorb the products of all or not. The difficulties in which the cement industry had once found itself were also of a similar nature. Another very glaring example of a haphazard industrial evolution in our country is that while developing modern large scale industries, the effect of their development on cottage industries in the same line has never been studied. How far such old and indigenous industries would suffer, and how the sufferings of those engaged in them can be mitigated or minimized, have never been the concern of our industrialists or the Government. This has made even the meagre industrial development that has been in our country the cause of much social maladjustment and economic disintegration. Had the industrialization of the country followed a planned course, not only the economic ruin of our many industries would have been saved, but even the large scale factories would not have pursued the one-sided course as it has now done. Thus planning is essential for sound and systematised industrial progress of the country in future. This industrial planning in its return must form the part and parcel of the whole national planning. Because our industries have to be adjusted to the programmes of our agricultural reform as well as the reconstruction of the various other economic and non-economic aspects of national life. Therefore planning in any particular field of national life must be in keeping with the principles and policies of our general planning, about which we shall write a bit in detail in a separate chapter. Here, it must only be limited that any such programme of planning is possible only when we become a free and independent nation with complete control in our hands of the nation's destiny.

State and Industry: (Free Trade *vs.* Protection):—Another problem allied to the one discussed above and in any way not less important is regarding the determination of a right policy on the part of the state

towards country's industrial progress. It involves, in its theoretical aspect, the highly controversial question of Free Trade *vs.* Protection. Before we discuss this question in its special relation to India, it would not be out of place to study it in its general aspect.

The classical argument in favour of free trade is that of comparative advantage based on international division of labour. It is with much plausibility that the protagonists of the Free Trade School of thought argue that every country should produce only those things for which it is best fitted and should fulfil its demand for other commodities by means of importing them from the countries that are most advantageously placed in the matter of their production. The result would be the establishment of an international division of labour between different countries of the world in which all would gain and none would lose. In practice it would mean that those countries which for geographical and other reasons are more favourably situated to carry on agriculture should concentrate their productive forces in producing agricultural products which should be exchanged for the manufactured commodities of other countries that are supposed to be best fitted for industrial work. At the very face this argument in favour of free trade seems to be correct. But a critical examination of it would reveal many week points.. The first difficulty with which we are confronted is about the meaning of the term 'best fitted'. What is the criterion with reference to which we have to determine the suitability or otherwise of a particular country in relation to a particular product. Have we to consider only the natural advantages, that is advantages flowing from favourable climate, raw material, power etc. Or we have to consider other factors also such as concerning labour, transport facilities, currency policy of the Government and various others of the kind. As in economic matters, like in other departments of life we have no clean slate to write upon, and the present can

never be delinked from the past, what we do is to start with the *status quo*. And here arises the disturbing factor. *Status quo* is not permanent and is amenable to much change in the course of time. If it is favourable to one country at one particular time, it can be made equally favourable to another also, in certain respects at least, at another time. How can you then expect a country to accept arrangements based on a particular situation only, which is unfavourable to it and which it knows can be made favourable only with a little or even more effort on its part? A nation free to control its own destiny would certainly not submit to the imposition of any such permanent ban on itself. Take a concrete example to illustrate the point more clearly. By the middle of the 19th century, as we have already seen, foreign rule in India had successfully and completely wrought the industrial ruin of the country and it was partly on its ashes that England had succeeded in building up her own industrial structure and making herself the mistress of the Industrial World. And it was on the basis of this deliberately and consistently worked out situation that the theoriticians of the Free Trade School advocated the policy of India concentrating on the production of raw materials for the workshops of England because it was claimed that the latter was more fitted for manufacturing industries whereas India was doomed to remain an agricultural land. Had India not been a British dependency, she would have certainly retaliated against England as her own blood-brothers in America or the Germans did. Every school student knows how by discarding the free-trade argument, America and Germany turned the *status quo* in their favour and in no time emerged as the great competitors of England in the industrial field with great advantages to national prosperity and prestige. And we know to-day it is America that leads the industrial world, and not the John Bull. Can there be a greater fallacy of the free-trade argument

than this. But this is not all. In spite of all the good talk of internationalism, the stark reality of nations forming separate and independent units pursuing their individual interests has got to be admitted. Even the Communist Russia, under Stalin, has given up her international ideals,* which, in fact, had even, in the past, never advanced beyond the stage of a platform talk and a distant goal of the future. Therefore, though on the one hand all nations realise that it is neither possible nor desirable to follow the objective of complete national anarchy, yet everyone is anxious to achieve it to as great an extent as possible to meet the requirements of national defence, primary and basic necessaries of life, and the employment of all the national resources in man and material. It is very important that we become clear in our minds about all these things. Every country to preserve its independence and existence must take care of its defence at any cost and no theory of one-sided economic welfare can be permitted to come in the way. There can be no question of welfare before existence, and the cost to maintain the latter is certainly justified in the interest of the former also. Hence in defence industries no country should depend upon any other, and the argument of comparative cost can have no relevancy. The same argument holds good in case of the basic necessaries of life also. Then we have the all important question concerning the employment of national resources in their full. In this connection the patent weakness of the Free Trade theory is that it identifies maximum economic welfare with consumption at the cheapest cost. But this is wrong approach to the whole question. Maximum economic welfare is coterminous with full employment, and free-trade theories start with this assumption. Even if we grant that in conditions of full employment, free trade is capable of providing the best among alternative uses,

*The Communist International has recently been dissolved.

but what does this conclusion come to when the assumption of full employment of national resources does not materialise. And free trade is quite compatible, nay, can often be the cause of serious un-employment in a backward and undeveloped country (like India), with a growing pressure on agricultural land of a population which cannot find any outlets into alternative channels of production." Hence on the fundamental ground of maximum economic welfare also, the free-trade argument falls to the ground.

The foregoing discussion must clearly show that the theoretical basis of free trade theorists is much less sound than generally supposed or claimed. And, it is the recognition of this fact, that compelled even the leading free-traders like Marshall to accept by way of exceptions, for example, Friedrich List's argument in favour of "wealth producing capacity" or "infant industries." The argument of "wealth producing capacity," as Pigon admits, is "particularly strong as regards an agricultural country wishful to develop manufactures," for in such a country the effect of industrialization in the production and augmentation of national wealth is more far-reaching than in an "old-established manufacturing country."

But if free trade is not a general panacea for all countries at all times, it would also be wrong to deny its utility to any country at any time. It is all a question of relativity as to a particular country advocates free-trade or protection as the aim of its fiscal policy. It is this relativity of economic doctrines that explains mercantilism of England prior to the Industrial Revolution, her *laissez-faire* of two centuries thereafter, and her hesitating protectionism of to-day. It is again the same relativity that goes to explain the protectionist zeal of List and Carey, "citizens of two typical countries with unlimited but then unrealized potentialities of industrialization." And, on the same basis of relativity, the case of India should also

be judged in this connection, though distressingly enough pre-occupations with the interests of a foreign capitalism have not allowed the Indian Government to do so, so far.

Just as Free-trade has been subjected to much searching criticism at the hands of the protectionist, so has been the fate of Protection as well from the opposite side. We shall take note of all these arguments while discussing the cases of India, with which we are specially concerned in these pages.

While tracing the history of recent industrial progress in India, we have seen that the attitude of the Government towards industrial development of the country has all along been not only apathetic but even hostile in several matters. Before the so-called fiscal autonomy was granted to India in June, 1921, the State in India had followed an altogether undiluted policy of free trade. With this newly-won liberty at the back, which has, by the way, proved to be more illusory than real, the Government of India appointed in October, 1921, a Royal Commission to recommend a fiscal policy. As is well-known, the Commission after a thorough examination of the whole question recommended the adoption by the Government of the policy of 'discriminating protection.' The following triple formula was enunciated by the Commission :

(*i*) The industry seeking protection must possess natural advantages, as abundant supply of raw materials, cheap power, sufficient supply of labour and a large home market. Care should be taken to ensure that no industry is protected which in due course of time cannot stand on its own legs without the aid of protection and successfully compete in the world market on equal terms.

(*ii*) The industry to be protected must be one which cannot develop at all or is not likely

to develop so rapidly as national interests require without protection.

(*iii*) The industry must eventually face world competition without protection. Besides this, the operation of increasing returns in an industry, or the probability that an industry would supply the entire needs of the country, before long, entitled a particular industry, in the opinion of the Commission, to special consideration. The Commission also recommended the basic and key industries as well as defence industries for protection without the fulfilment of any of the conditions mentioned above.

Apart from further suggestions to protect indigenous industries against 'dumping' or competition of bounty-fed products from abroad, the Fiscal Commission laid down that only "young" industries should be protected and not the "embryo" industries relying upon the speculative hopes of the promoters. The Commission further recommended that on the basis of the above conditions, non-basic industries may be assisted by means of import tariffs, and that basic industries may be assisted chiefly by means of bounties. The establishment of a permanent Tariff Board was recommended to enable the Government to carry out the above policy by entrusting to the Board, among other things, the duty of examining the claims of various industries to protection and of watching the operations of tariffs and bounties.

The above recommendations of the Fiscal Commission (Majority) including the policy of discriminating protection, were accepted by the Government and a resolution was passed by the Legislative Assembly in February, 1923. In July 1923, the Tariff Board was also set-up. Thus India was set on the royal road of discriminating protection, on which it has continued to this day irrespective

of much criticism that has been levelled against this policy-on both the grounds of 'too much' as well as "too little".

Before we proceed further to discuss the merits and demerits of the policy of discriminating protection, it may be useful to point out that the Minority of the Commission, consisting of the President (Sir Ibrahim Rahimtoola) and all the Indian members excepting two, disagreed with the Majority in its conclusions. According to the former, there was no justification for the policy of protection to be followed in India to be hedged in by so many inhibitions and restrictions as the Majority recommended. It does not mean that the Minority of the Commission advocated a policy of an indiscriminate protection. But they were definitely of the opinion that a more liberal policy of general protection was what India needed for its full industrial growth, and the conditions laid down for applicant industries in the majority report were unduly stringent that would entail considerable delay in giving effect to the policy of industrialization and would not produce adequate results. We shall now examine the respective claims of the Majority and the Minority not only on merely theoretical grounds but also in the light of actual achievements made and then form our own judgment in the matter for future.

The majority of the Fiscal Commission in recommending a protectionist policy for India, which according to them possessed all the potentialities necesssary for the industrialization of the country, based their argument mainly on the theory of 'infant industry' and 'wealth producing capacity.' In other words all that the Commission meant was that protection is necessary for the development of young industries which in the absence of it would not find it possible to successfully stand in competition with old-established industries in the same line which have got the advantage of an early start. Thus the Commission visualized not a scheme of general protection but "a

piecemeal application of the protective formula, and compartmental treatment of each industry." This was the result of misconstruing List's argument in favour of infant industry. His theory was applicable to a young nation as a whole and not to any particular infant industry. What List had in view was the industrial development of a whole nation with all the potentialities for that development but left behind in the race of industrialization in comparison to other countries. He was of the opinion that it is only with the help of protection that such a country would be able to make up the necessary lee-way. Specifically it was the case of Germany that was before him which was then much backward in the industrial arena in comparison to England. The halting policy of protection which the Fiscal Commission (Majority) recommended was, therefore, based on a wrong theory. The Commission mentioned a number of other points also against the policy of general protection, such as the danger of political corruption, the possibility of combinations, fear of encouraging inefficient production, or burdening the consumers too much, or a general rise of prices. But all these arguments of the Commission were either fallacious or irrelevant. For example protection can be a cause of inefficient production if the rate of protection granted is very high. This obviously is possible both under a policy of general or a piece-meal protection. Therefore to say that under discriminating protection, in the sense of piece-meal protection as distinguished from a co-ordinated and mutually helpful system of protecting mutually inter-dependent industries, there would be no danger of encouraging inefficient production; is meaningless. To repeat, it is a question of 'degree' of protection and not of its kind. The same argument holds good in the case of burdening the consumers, because that is also dependent on rate and period of protection. Neither it is clear how a policy of

discriminating protection can minimise the danger of either political corruption or combinations in comparison to general protection. Their fear of a general rise of prices and as a consequence exports falling even more than imports and thereby turning the balance of trade against the country was also not justified either on theoretical or practical grounds. Then it is also to be remembered as an extreme argument that if in the interest of greater national production unfavourable balance of trade is an inevitability, it must not be feared at all. Thus it should be clear now that the arguments advanced by the Fiscal Commission (Majority) in favour of 'discriminating protection', did not hold much water. And as was pointed out earlier, it was particularly on this point that the 'minority' disagreed with the 'majority,' the former being in favour of a more liberal policy of general protection which never means, however, indiscriminate or too much protection. Therefore, according to our view point, the approach of the Minority was more correct and the tardy growth of industries in India even during the past two decades when discriminating protection has held its sway is, in our opinion, an unassailable proof of the failure of this policy.

The policy of discriminating protection did not suffer only from the defect that it was piece-meal and haphazard in its nature. It was responsible, for example, also for the refusal of the Tariff Board to consider the case of "Embryonic" or potential industries. The Fiscal Commission had in unambigous terms laid down the principle that "no State assistance by means of bounties and protective duties should be given to industries which have yet to be established." This was definitely checking the rise of many useful and important industries in the country. Then the 'triple formula' which the Commission recommended as the necessary condition to entitle an industry for protection is also defective and inconsistent. First, the

conditions mentioned therein are very stringent. The chief criterion for granting protection to an industry must be that of 'cost of production.' If it can be safely assumed that in a reasonable period of time the costs of production of an industry demanding protection would be such as can give hope that the industry would be able to stand on its own legs, then the claim of that industry for protection should be considered as established. To make the possession of natural advantages such as concerning raw material, or internal market as inevitable condition for the grant of protection is wrong, and we know that the 'triple formula' of the Fiscal Commission did make these advantages an essential pre-requisite. This does not mean tht the possession by an industry of these or other advantages has no relevancy in deciding its demand for protection. The important point to be remembered, however, is that all this relevancy exists in so far as these advantages affect the cost of production of the industry. But so far as the final decision goes it has to be based on our estimates of the latter (cost of production) and not the former. If we just cast a glance upon the industries of the different countries of the world, we shall at once find that in spite of their having no advantage either in the matter of raw material or internal market they are very prosperous. England does not possess raw cotton, and still it has got such an important cotton industry; and the produce of most of the industries of the western countries is marketed in countries far away from the producing ones. Then, so far as market is concerned it also develops side by side with the growth of industrialization and to make it, therefore, a pre-condition of industrial growth is to an extent like putting the cart before the horse. This need not surprise our readers. Any well co-ordinated policy of an all-round development of industries in India would create the market for the products of one industry in the demand of another. Besides, such an all-round

growth would also augment the national dividend which would result in greater and greater consuming capacity of the country's millions. All this must be enough to show that the conditions laid down by the Fiscal Commission regarding natural advantages betrayed an unscientific approach as well as a harshness of attitude that could have no other effect excepting the strangling of country's industrial growth. The incongurity involved in the three conditions of the 'triple formula' may also be noticed. The second condition says that protection should be granted only in cases where an industry cannot develop at all or at the required speed without it. Now, why any industry that possesses such natural advantages as are laid in condition No. 1 would need the help of protection for its development is un-understandable. Therefore, it is necessary to put the formula in working that the first condition must be a little relaxed, otherwise the result is bound to be a deadlock.

So far we have confined our attention to the defects of the policy of discriminating protection enunciated by the Fiscal Commission. We shall now discuss if the machinery, set up for carrying out this policy in action, also suffered from any drawbacks or not. We have seen that the Tariff Board established in July, 1923 was such a machinery. The first point that strikes in this connection is that there is no statute except a resolution of the Government of India in the Department of Commerce laying down the exact constitution, functions and procedure of the Board as in other countries. This has been a great handicap in the way of the Tariff Board and must be remedied. Regarding the functions of the Board, the above resolution of the Government of India is very narrow in its scope. Excepting the application of the formula of discriminating protection, it does not seem to contemplate any other job for the Board. This is definitely opposed to the recommendations of the Fiscal Com-

mission in this matter. The Fiscal Commission envisaged a much larger number of functions for the Board, and though the Board also in actual practice went a little beyond the Government resolution and besides investigating the cases of discriminating protection, also enquired into the cases of Tariff Equality, and Dumping, still all this was much less than what the Commission recommended. To give a few examples only the Commission was right in including within the scope of the Board's functions such things as examining the protective effect of revenue duties in cases of their alternations, examining the effects of Imperial Preference and Bi lateral Agreements, and studying their later effects, making a continuous study of the data regarding prices, trade, and production for protected industries, considering the effect of excise duties on Indian industries, as well as of tariff duties, and to investigate any complaints regarding combinations and monopolies to the detriment of the consumer. Another drawback that has been noticed in the working of the Tariff Board machinery in India is about its procedure. Not only that the Board has always to work under the thumb of the Government of India from the time an industry submits its case for protection to the final moment when decision is taken in regard to it, but this whole procedure often involves great delay and much irritation which sometimes proves fatal to the industries that are granted protection. Inadequate publicity about the work of the Board which thus comes in the way of focussing public opinion on the question which is subject of an enquiry for protection, and the facility granted to rival British interests on a "reciprocal" basis (which has no meaning in actual practice) to tender evidence and to cross-examine the evidence tendered by Indian interests, are other defects that have existed in the Board's procedure, the later one being unparalleled in the history of world-tariffs. Lastly, the uncertainty of the tenure of the Board's mem-

bers and their dependence upon the sweet will of the executive, which is bureaucratic and irresponsible, has also detracted much good from the usefulness of the Board. Thus in brief we can say that reform is necessary in the direction of extending the activities of the Board, in making its machinery permanent in giving to its members security of tenure, and finally in reducing the predominance of the executive from which the Board suffers at present.*

The foregoing discussion should have made the point clear that the policy of discriminating protection recommended for and adopted by India was inadequate for the full industrial development of the country. The actual results achieved in the field of industrialization of the country are a definite proof of the above statement. But this is only half the story told. Because in actual practice, barring a few exceptions, the protective duties imposed have failed to give any positive or substantive protection to the industry concerned. In other words the effect of granting protection to industries has not been developmental but safeguarding only. This requires a little clarification. After the last world-war, the world including India has been passing through abnormal economic conditions, sometimes due to dumping and depression and at others due to unfair competition or exchange depreciation. And whatever protective duty was levied, it helped mostly only to nullify the unfavourable effects on the industry of the above special conditions. "If it were not for the series of artificial circumstances which dogged the path of Indian industries, perhaps our industries could have either dispensed with protection altogether or would have been able to develop themselves with extremely moderate duties." Thus in view of the special economic background that prevailed

* As under war conditions the Government did not think it possible to re-examine protective duties that ended on Marh 31-1941, therefore the Tariff Board was disbanded. At present, thus, there is no T. B. functioning.

during this entire period of the working of Discriminating Protection, the character of Indian protection has largely been of the safeguarding variety which any government must have thought its duty to provide in order to preserve the industrial structure of the country. This, then, has been a very important factor in minimising the good that protection even of the discriminating type would otherwise have been capable of doing.

Then there are a few more defects that have been noticed in the working of the policy of discriminating protection in India. A careful study of the enquiries made by the Tariff Board and of the action taken in relation to them by the Government must leave one convinced of the fact that the Government have never been very enthusiastic about the protectionist policy that it has accepted in theory. The delay that often marked the whole process, and the scant courtesy with which the Government always appeared to treat the recommendations and findings of an expert body, like the Tariff Board, clearly showed that in fact the Government secretly nursed a feeling of hostility against the avowed policy of discriminating protection. Lastly there was the question of the conflict of Indo-British interests that really existed. It should be taken as an open secret that an all-round and full-fledged development of Indian industries must run counter to the interests of British capitalism. The Fiscal Autonomy Convention, if it was to have any reality behind it must mean the freedom and willingness on the part of the Government of India to treat Indian interests first and all others, including even the British ones afterwards. But this pre-supposed a system of Government in the country that was independent of foreign control. India Government cannot be said to possess such an independent character is more than obvious. Naturally therefore the Fiscal Autonomy Convention in India has proved more illusory than real. The results of the conti-

nuous clash of interests between India and Britain that have always existed behind the curtain has been very well summarised by Syt. Adarkar in his Indian Fiscal Policy in the following words: "(1) Where only or mainly non-British interests were likely to be injured, and the case for protection was justified on other grounds, protection has been invariably accepted by the Government. (2) Where protection was likely to injure British interests mainly, it was cold-shouldered. (3) Where, however, it was possible to erect a double-decker tariff, with a scheme of preference within protection, compromise was reached and the path of protection was smoothed. (4) In a very few cases, such as paper, tin-plate, ship-building, etc., protection was accepted by the Government if there was the counter-acting force of British firms inside the country neutralising the opposition of foreign concerns." There is one more point a reference to which becomes necessary to complete the whole story of discriminating protection in India. It is about the policy of Imperial Preference, which, under the stress of circumstances, the Government of India has accepted since 1932. We shall not go into the theoretical merits and demerits of the policy of Imperial Preference at this juncture. All that we have to point out at present is that this policy has upset the free working of the principle of discriminating protection with which it certainly cannot be reconciled. This has, therefore, been another hurdle in the way of discriminating protection which, even if it had full and free play, must have proved utterly inadequate to meet the requirements of India's industrial progress.

If the line of reasoning that has been developed in the foregoing pages is correct, and we hold that it is definitely so, it unhesitatingly takes us to the conclusion that India's industrial growth that would be commensurate with her resources in men and material needs a more active support on the part of the Government and

the halting measure of discriminating protection dealing with each industry independently and not as a link in any well co-ordinated plan of industrializing the country must be replaced by a policy of general protection that would have in its view not the development of any particular industry but the all-round industrialization of the country as a whole. This takes us to a question of great controversies, and to give a reasoned basis to our above conclusion, it is necessary for us also to enter into them not with a view to get lost in the cobweb but to clear the issues of all prejudices and predilections so as to be able to examine the problem with the only viewpoint of India's national economy and its highest interests. Let us then discuss it at some length.

We have already examined the arguments advanced in favour of Free Trade and found them wanting on both grounds of theoretical reasoning and practical experience. We concluded that Free Trade or Protection is all a question of relativity, the suitability of each one of them being determined by the objective situation found in a particular country. Protection as a policy would suit India is clear, we have seen, as a result of the application of Lists' argument in favour of 'infant country' and 'wealth producing capacity' which even the free-trade theoreticians as Marshall and Pigon, have admitted. We have, therefore, only to examine the arguments that are put forth against protection and estimate their respective strength in relation to India's specific case.

Before we start to examine the arguments against protection, it must be emphasised that we have to view the whole problem as a long-range one and as a means not only to give full employment to the country's total resources but also to enable it to stand successfully in competition with other nations in a world where large-scale gangsterism has become the guiding principle of the civilized nations of to-day. Thus national sufficiency

in matters of defence and in primary and basic necessaries of life must always be kept as our national ideals, however undesirable they may appear on grounds of higher idealism and internationalism which, as a concession to practical wisdom, have been either deliberately sabotaged or given a silent go-by even by those who are always found prophesying them in an idealist vein.

One very potent argument against protection is that it benefits the producer at the cost of the consumer. The argument certainly has an element of truth in it, and no protectionist can deny it. Protection means increasing the customs duty on foreign imports. Usually it would result in increasing the price of the foreign imports by the amount of the protective duty, because the foreign producer would not like to bear the burden of the duty himself. This means obviously a loss to the consumer. But against this loss, we have to consider certain advantages of protection also. First, this rise in price may prove only temporary. If protection is given to those industries which cannot compete with the foreign products merely because they entered the field a bit late, then after sometime when they have overcome the initial handicap and full development of industries has taken place, it might be possible for the domestic producers to sell the goods at a *price lower than the one at which the foreigners sold* previously. At least they would bring the prices down to the former level. But all this is problematical, depending upon the cost-factors of the protected industries in relation to foreign ones. Secondly, protection by encouraging domestic production not only of goods protected but also of others would also augment the consumer's income and thus any loss in the form of high prices would to this extent be compensated. But the most important thing is that protection would mean employment of country's unutilised resources which is a great advantage and for which a little loss in form of raised prices may be justified.

That protection might not lay an unjustified burden on the consumer, it would have to be seen that the whole protective system is built on the basis of a planned and a co-ordinated system of industrial growth in the larger national interests. In such circumstances even if a section of the country's population (consumers) has to undergo some sacrifice that would be worth making in the wider interests of the whole nation.

Another argument advanced against protection is that it leads to a regressive taxation, that is to say a taxation the incidence or burden of which falls more on the poor and less on the rich. It is claimed to be so on the simple ground that duties on consumption goods, being an indirect form of taxation, fall regressively on the poor. How far it is actually so would depend upon the character of the goods protected. If they are consumed by the general public, the burden of taxation must fall on them, but in case they cater for the wants of only a particular section of the people, then the burden would fall on that section alone. But the important question in this case as in other cases is not as to who bears the burden but the fact that if such a burden is justified on broad national grounds. So far as the system of taxation is concerned, it can be made more progressive by means of imposing new taxes on the rich for which there is ample scope at least in India even now. The burden on the consumers can also be converted to their own advantage by spending the amount of the taxes on objects of social welfare.

The next point in the armoury of anti-protectionist is that when protection begins to become effective, it produces an adverse effect on the public revenue. Now in the short period the contention proves to be right if it is a case of raising the already existing import duties to such a degree as there results a restriction of imports. But in the long run protection leading to greater development of national industries and thereby increasing the national dividend

would create several new sources of taxation which can only have the effect of increasing the public revenue. Even in the short period so many complex factors would act and react upon one another that no general remark can be possibly made about the net result.

In relation to all the arguments so far advanced against protection one thing is clear that all of them contain an element of truth as isolated factors, but to view them in this perspective is wrong. We have to estimate their good or evil from the standpoint of the totality of national welfare, and not only economic welfare. If in the interest of the total national welfare protection appears to be a desirable policy of state action that must be followed irrespective of its effects from isolated considerations of one thing or another. But there is one very serious argument that is advanced against the protectionist theme, and that is of creating vested interests in the country with all its evil ramifications including also the danger of political corruption. Now for clarity of thought we must remember that vested interest are the concomitant factors of the capitalist form of production. You cannot have the one and do away with the other. Protection of course becomes responsible for the creation of vested interests not as original cause but as an immediate one only in so far as it helps and promotes industrialization of the country. This evil, therefore, is certain and the only reasonable way out of the difficulty is not to forego the fruits of industrialization but to check and minimise the evils as far as possible. This calls for an effective control on the part of the Government over the protected industries to safeguard the interests of the masses. In fact the control should be extended to others as well if it is necessary in the national interest. Protection is not the only factor in the rise of trusts and cartels which must be controlled to safeguard the general interest whatever their origin. Prof. Gyan Chand calls protection (artificial raising of prices for drawing in-

vestible funds into an industry) as "a very crude method of fostering industries." According to him "its underlying assumption is that behind the tariff wall, unregulated, competitive, *laissez-faire* economy is to prevail. The industrialists want the state to protect them against foreign competition, but they do not want the consumer, the worker, and the community to be protected against their economic aggressiveness." He therefore advocates the adoption of quota systems, exchange-controls, and bilateral-agreements in its place. Of course by means of these many complications involved in the working of the protective machinery as of assessment and valuation, or of double, triple or multiple decker tariff schedules would be easily avoided, and to this extent they can claim a superiority to the tariff-system. But to safeguard the general interest even the industries established in this way, as he himself admits, must be subjected to necessary public control. And if the alienation of forces in the country is such as can force the Government to institute the necessary public control of industries in one case, it would be possible to do the same in the other also. The conclusion at which we arrive is that so far as the question of safeguarding the community against the evils of capitalism is concerned, it would depend on the type of forces that are ascendant in the field of national politics. If it is the progressive forces that are in the ascendancy, the necessary public control of country's economic life would be possible otherwise not. This means, for a healthy and sound industrial growth of the country a change in the social frame is inevitable. In the existing capitalist frame, industrialization must otherwise result in the creation and growth of vested interests. There is no possible escape from this. It may however, be argued that on other grounds concerning the complex working of the Tariff protection, the protective policy might with advantage give place to simple, direct, and far more effective methods of fostering industrial de-

velopment of the country. Quotas, Exchange controls and bilateral agreements are the methods in reference. But how far these latter are really simple is an open question. Any way protection as an aid to industrial development of the country is essential and cannot be replaced altogether by any other system of aid.

Other measures of State-aid: Besides the above most important methods of Fiscal protection to industries discussed in these pages, there are a few other measures of fiscal and non-fiscal character that the State may adopt to promote the industrial development of a country. It is our purpose to make a brief review of them now.

Levying an export duty on the export of raw materials to ensure an adequate supply to national industries is one such fiscal measure that is sometimes suggested. The only consideration that goes against such a policy is that it might not result in imposing a disproportionate burden on the producer giving only a slight advantage to the manufacturer. This point must, therefore, be carefully weighed before taking any action in the matter. Similarly exemption from the ordinary duties of raw materials, machinery and its parts, tools and instruments, imported for industries is another way of promoting industrialization through fiscal protection.

The State can do much to help the industrial progress also by aiding in the development of a sound banking organisation in the country, following a sympathetic railway and shipping rates policy and creating an effective marketing organisation. The necessity to organise a sound system of commercial and industrial intelligence cannot also be overemphasised. The present position in India in relation to all these things is far from satisfactory. Our banking organisation has to be adjusted to the needs of industrial finance which undoubtedly is one of the pressing problems of our industrial development. The complaint that Indian railways have persistently pur-

sued a highly unfavourable rates' policy so far as our industries are concerned is of long standing and needs be removed. The lack of adequate statistics and other datas about the industrial and commercial life of the country and the absence of a well-organised intelligence service are also a great handicap in our way. The Indian Research Bureau, established in April, 1935, has amongst its other functions also that of the collection and dissemination of industrial intelligence. The different Provincial Departments of industries also include the supply of industrial intelligence in their main work. But all this requires much extension and co-ordination to arrive at a satisfactory state of affairs.

In the creation of a suitable atmosphere for the industrialization of the country, the importance of education is great. The type of education that is imparted in our modern schools and colleges has become notorious for its liberal bent. It does not fit the young man to be a useful member of the society. He develops a condemnable sense of dislike for manual work. All this needs a complete overhauling is admitted by all thoughtful persons. The two educational experts, Messrs. A. Abbott and S. H. Wood, who visited India in November, 1936 at the invitation of the Government of India, in their report submitted in June, 1937, have also emphasised the same point. The Fiscal Commission also recommended that the Government should take necessary steps for the training of skilled labourers, supervisers, foremen and managers. The same point of view has been pressed by a number of other commissions and committees from time to time. The Industrial Commission (1916-18), the Calcutta University (Sadler) Commission (1917-19), the Zakir Husain Committee (1937), the Bombay Committee on Technical and Industrial Education (1921), and the recent Sargent Committee (1940) appointed by the Government of India to enquire into the problem of training tech-

nicians, specially to meet war requirements, are instances in the point. The present situation needs reform in two directions. First in our scheme of general education specially in the primary stage a much more vocational bent should be given. The Wardha system of education is a very commendable effort in this connection and needs all encouragement. But before it gets stereotyped, it is very necessary that it should be tried intensively by those devoted to the work and possess a really creative insight in it. An extensive experimentation of it as was done by the Congress Governments in different provinces, was a wrong policy and in future the mistake should not only be not repeated but also be retraced as far as possible. Secondly technical institutions must be started according to the needs of our industrial growth where technical training is provided to the young men of the country. The number of such institutions at present in the country is very small. Greater attention should be paid to the training of higher grade of workers as foremen, managers etc. The Government of India as well as the Provincial Governments must follow a co-ordinated policy in this connection by establishing technical institutions in the country, giving foreign scholarships, and making the training of apprentices as one of the conditions of purchasing goods from foreign firms. Here it is important to remember that a close contact between industry and educational institutions would be inevitable to achieve the best results and adjust the production of technical institutes to actual needs.

A subject of equal importance is that of Industrial research. To keep our industrial organisation abreast of the most up-to-date developments in other industrially advanced countries of the world, and to carry on further improvements in them, it is necessary that the work of industrial research must be well-organised in every country. Big industrial firms as well as the State both have an equal

responsibility in the matter. So far neither of them can be said to have discharged their charge well. To encourage private efforts in this matter Government should render all possible help in form of financial aid, expert guidance and co-ordination. Universities can also do a lot in this direction by establishing a separate department of Industrial Research. The department should get full co-operation from the industry between which a close contact would be very essential. The Government should have its own institutions for the purpose. But co-ordination between different private efforts *inter se* and between them and those of the Government must be maintained to avoid waste and unnecessary duplication of work. The Industrial Research Bureau, 1935, helped by an Advisory body called the Industrial Research Council has a research branch at Alipore. One of its functions is collaboration with industry in industrial research, and publication of appropriate bulletins giving advice with a view to industrial standardisation, and assistance in the organisation of industrial exhibitions. Further steps have recently been taken to promote research work under conditions of war. For this purpose the Board of Scientific and Industrial Research has been set up. It has the representatives of the principal industries also associated with it. It may be hoped that the Board may prove to be the nucleus of the future national organisation for the advancement of industrial knowledge.

Lastly the Government can give a lot of encouragement to home industries by following a judicious and helpful policy of stores-purchase to meet Government requirements. The Government of India's policy in this respect has been the subject of much stringent criticism from time to time. Even the Government appointed Industrial Commission complained that preference was given to British stores even when they could have been supplied equally well both as regards price and quality

by Indian manufacturers. The excuse of the Government was the absence of a suitable inspecting agency to direct and advise the indenting officer in India who, therefore, sent all orders to the India Office Stores Department in London. But obviously the excuse is untenable and a suitable agency ought to have been created. It must be mentioned here that all this was, against the declared policy of the Government in matter of stores-purchase. The Indian Stores Department acts in an advisory capacity as a purchase and inspection agency, and acts as a central bureau of information regarding the purchase and prices of stores. It is also the duty of the Stores Purchase Department to investigate into the possibilities of indigenous sources of supply. By an improvement in the system of placing orders also, as the Industrial Commission pointed out, much encouragement can be given to the expansion of the old and the establishment of the new indigenous industries. For example instead of placing orders for unnecessarily diverse kinds of goods, goods of standard patterns must be purchased so that to meet the large demand it might be profitable to start even a new industry at home. An important question about the stores-purchase policy is about the basis of preference to be given. So far as goods of the same value and quality are concerned, preference must go to Indian manufacturers is of course more than obvious. But suggestions have come from certain quarters that preference must be extended even in cases of higher prices or poorer quality to encourage further development. We agree in this connection to the view that before an action is taken in this matter, the whole case must be submitted to the Tariff Board for Enquiry because it amounts, in a different way, to giving protection to industry or industries in question.

Conclusion :—We have discussed at some length the various measures the State should adopt to promote the industrial development of the country. What part

the State can play in the matter of providing industrial finance, we shall examine in the following chapter. But we may anticipate our findings in this connection by saying that the rôle of the State even here is going to be not unimportant in any way. All this then takes us to the irresistible conclusion that if India has to correct its occupational balance, and the present backwardness in the industrial field has to be removed, it would be possible only with active state-assistance. There is no doubt that after the last world-war there has come about a change in the attitude of the Indian Government towards industries and the present war-needs have given some impetus to it. The various Provincial Departments of industries have also done some thing in promoting technical and industrial education, supplying industrial intelligence, and rendering assistance to industries in financial matters as well as by establishing arts and crafts depots and organising exhibitions. But the success achieved by them has been small. Their activities are also mostly devoted to the development of cottage and rural industries and not to large-scale industries. Some useful co-ordination is made possible by the annual sessions of the All-India Industries Conference where in addition to Provinces some Indian States are also represented. The Bengal Industries Department has got the largest measure of success. The research laboratory at Calcutta, the Tanning Institute of Bengal doing research work in leather and tanning work, the establishment of demonstration factories in some provinces, only a few of which have, however, succeeded, and the carrying out of industrial surveys in the U.P., Madras, Bengal, and Bombay are examples of some good work done by the Provincial Governments for industrial development. But it must be at the same time emphatically mentioned that such an inadequate and un-co-ordinated as well as unplanned help from the Government is not going to serve our imperative needs.

What we require is a much more active policy on the part of the State based on a well-thought out scheme of industrializing the country having a clear-cut objective before it. The need for such a policy would be all the greater when in the post-war period the problem of economic reconstruction comes face to face and many industries that are the creation of war-time opportunities would require protection from foreign competition. The Government have already announced their intention to appoint a Fiscal Commission after the war. But mere announcements are going to bear little fruit and inspire no public confidence. The wounds of the past as well as the present are sufficiently fresh and festering. Only a fundamental change in the character of the Government which means establishing a truly national Government in the country would be able to cope with the situation. Thus India's political freedom is the first requisite for a sound industrial development in the country. So long as we are not going to have it by one way or the other, all our hopes of economic amelioration must remain frustrated and unrealized. Capture of political power is the only means for successful working of all schemes of national regeneration and uplift, is a hard truth that no realistic survey of our forces can ignore.

But there is another and a much more important aspect of the problem of industrialization facing the state. So far our emphasis has been only on a more progressive protectionist policy to be adopted by the State. This, however, is not enough. Industrialization is after all a means to a particular end, the end being the promotion of the general well-being of the masses. Industrialization, if it results in the creation of powerful vested interests and an increasing un-equal distribution of wealth in the country, would be of little good. To avoid these evils industrialism should be regulated by the State in broad national interests. Pure and undiluted capitalism has had its day and any attempt to perpetuate or resuscitate it is bound to be

doomed. Thus the industrialization of the country on sound and rational lines involves not only the problem of state encouragement to industries but also of state-control—regulation or ownership of them. Adopting the former while rejecting the latter would, far from solving our problems, may only increase them manifold. What form the control and regulation of industry, may take and to what extent, is a question that does not admit of any clear-cut answer in advance. Only broad outlines may be suggested. Considering the importance of the defence industries to the well-being of a nation, we can say that they must be state-owned. Similarly all public utility industries should be nationalized. The same can be said in relation to monopolies also. Then comes the question of "key industries," "which are the starting point providing the basic equipment of other industries—*e.g.*, making of machines, tools, or plant needed in industrial development." In view of the great importance of these industries, it is necessary in their case also as in the case of those already mentioned that they must be state-owned and state-managed. It is in the same category that other heavy industries, as various chemical and engineering industries, would fall. In relation to all these industries in so far as they already exist as private enterprise a well-thought out programme for their gradual acquisition and operation by the State should be made with provision for necessary and reasonable compensation to the existing interests. So far as cottage industries as well as consumption industries connected with the supply of consumption goods and services are concerned, they may only be controlled and supervised in public interest by some public authority, as they would be small-scale operations mostly diffused throughout the country.

Generally it is argued that state ownership and control of industries mean inefficiency and waste. But the argument in no case can be regarded as a conclusive one. The

example of Russia must be an eye-opener to all sceptics. Further state ownership and control do not mean that enterprises should be administered by the ordinary Government machinery. "The system of administration by a public anthority freed from political interference in day to day administration has now become an accepted method of managing nationalised concerns. An autonomous public trust, technically efficient and carrying on its duties within the frame-work of the policy broadly laid down by the state would be free from the difficulties and inefficiency which creep in from democratic control."

The above remarks about the future industrial organisation of India may be condemned by some as no better than wishful thinking. And there is strength in such a condemnation so long as India remains under the thumb of a foreign bureaucracy with its characteristic arrogance and criminal negligence of national interests. But wishful thinking or no wishful thinking, the fact must be asserted that no rational and sound industrialization of India is possible unless and until the twin necessity of State encouragement as well as State control and ownership is fulfilled. Only under a free and democratic national government, such a consummation is possible, needs no reiteration. But the India of to-day lives and grows in the fulfilment of this hope sooner than latter, is a fact that need not be forgotten.

CHAPTER XVIII.

INDUSTRIES—OUTSTANDING PROBLEMS--(*Contd.*)

The Problem of Organisation:—In any scheme of sound industrial development, the importance of organisation is also great. It is to be regretted that this aspect of our industrial problem has so far not received the attention that is its due. In the modern industrial world, it is the joint-stock form of business organisation that holds the predominant place. The other forms, either an individual proprietorship or a partnership, are relatively unimportant and need not detain us at all. Now, it was in the middle of the 19th century (1857) that the joint-stock form of business organisation was bestowed upon a legal status by means of an Act of the Indian Government. Since then in our country also, as an index of the beginning and the growth of a new industrial life, the joint-stock company has come in more and more prominence. This, is satisfactory. However, there have been certain drawbacks associated with the development of joint-stock form of business organisation in India which merit our serious thought.

First, there is the question of promoting (starting) a joint-stock company. The work of promoting a company is not simple and to be carried on sound lines calls for the co-operation of three different classes of experts: economic experts who advise with regard to points such as availability of raw material, conditions of market and labour and the economic size of the proposed business; the engineering experts who help in estimating the cost of equipment, making decisions about the types of machinery and their construction and installation; and the financial experts who advise regarding the methods of raising the necessary funds. The promoters make use of these

expert services for which they pay. Because the amount of expenditure incurred by promoters in paying the expert services or undertaking a proper investigation of the potentialities of the enterprise is fairly large, it is risky and also beyond the competence of a single individual to take the full responsibility. Generally therefore the work of promotion is passed on to a syndicate consisting of a few persons, some of them being bankers and capitalists also. After the concern is properly organised and launched the promoters disappear from the field after receiving adequate remuneration for their work. Thus we have a class of specialised promoters who are not interested in a business beyond the stage of its promotion or establishment. This is how, then, promotion business is carried on in the industrial countries of the world. If we compare the position with what exists in India, our unsatisfactory state of affairs will be obvious. We have no class of specialised promoters. It is the business firms already engaged in trade or management of some other business concerns which undertake the promotion work. These firms are known as Managing Agency firms. They, after the promotion business is over, do not severe their connections with the newly started concern but establish themselves as its more or less permanent managers* as their very name implies. The absurdity of the whole thing becomes all the more clear, when it is known that the same firm of managing agents is engaged in promoting different kinds of businesses. Certainly they can claim no expert knowledge in any one of them. Another defect in our promotion business is that it is done without the guidance of any experts, as we have seen is the case in foreign countries. This for two reasons. The Managing Agency Firms are unwilling to share the credit of promoting a business firm with any one else, otherwise they would experience some difficulty in claiming and justifying the undue privileges they otherwise obtain from the

*Under the New Companies Act the position is changed.

firm they promote and of which they become also the managing agents. Further, specialised services are also lacking in India. But the use of such expert services must be encouraged, goes without saying. These defects result in certain evil consequences. The size of an average industrial concern in India is comparatively small, and this is one reason for it. Because no individual promoter or a firm can take the responsibility of a big firm which is a costly affair. Then making others party in the work of promotion also would create difficulty in establishing permanent connection with the firm afterwards. Defective investigation and financial planning have also been noticed. Firms have failed before coming into existence because the estimates regarding funds proved to be inadequate. Thus shareholders lose and become suspicious. It is therefore, necessary that there should be some efficient agency to certify the validity of estimates supplied by organisers to future shareholders.

So much then about the promotion business. Next point is regarding efficient and sound management. In a joint-stock company, shareholders are the real owners. But they are so many in number, scattered over a wide area and lacking the necessary technical knowledge, that the work of direction is not effectively done by them. According to the ordinary democratic principle, the sharehoders elect a Board of Directors for the purpose. They are in charge of deciding the broad policy, but the work of actual management to be done at the spot is entrusted to paid managerial staff. This is the apparent frame-work of a company's management and it seems that all should be well. But a closer and more intimate knowledge of the actual state of affairs would convince one of the many loop-holes existing in the frame-work. The first difficulty is that directors are not the true representatives of the shareholders. The whole thing in actual practice is so manipulated that they depend upon the good-

will of the management. It is much more so in India where the management of a company completely rests in the hands of the managing agency firms.* Secondly directors are generally persons who lack technical knowledge and business experience. Hence they are concerned little with anything else except their fees. It may be pointed out in this connection that this non-effectiveness of shareholders is not a special feature of India alone. More or less it exists in other countries as well. The clear-cut remedy is to subject the directors to an effective control by shareholders.* This is so possible by improving the popular method of voting under which every share has a vote. The system adopted in U.S.A. is worth consideration. Under this system one vote for each share is permitted up to a certain number of shares, and then one vote is given for a group of shares beyond that number and at the same time a maximum number of votes is fixed for each shareholder. Another way to make directors more active and interested in the business firm is to see that they are given adequate remuneration. The number of directors of a firm should be reduced, but the payment must be sufficient. For example, giving the directors a share in the profits would certainly improve the matters. Generally by means of a provision in the Articles of Association, directors are relieved of all responsibility except the one arising out of their personal wilful misconduct. This naturally makes the directors negligent and indifferent in controlling the affairs of the company. It is suggested that such an attempt to free the directors from their legitimate responsibility must be made illegal.†

A further suggestion to improve the system of management is to establish, besides the board of directors, a Council of Executive consisting of the managing director,

*Under the New Companies' Act (1936), provision has been made to regulate it and thus bring about an improvement in the present position.

†Under the New Companies Act it has been made void.

a member of the board of directors possessing technical knowledge, and the heads of important departments. It should discuss and formulate all the details of the working of the company. They might discuss important matters as well, but decisions in regard to them should be subject to the consent of the board of directors.

Another improvement very urgently required in this connection is regarding the checking of inter-locking of directors, a tendency which has been on increase in recent years. Thus not only the board of directors is virtually under the control of the Managing Agents, but it is a handful of persons, the big business and industrial magnates, who dominate a large number of business firms as their directors. This prevents the directors from being effective and results in centralisation of control. Hence it is necessary that inter-locking of directorate must be checked by legislation.

To increase the effective control of the shareholders on the affairs of the company, it is important that the auditors must be controlled by them and not the management. In India the auditing work is not conducted on satisfactory lines. One great defect is that "the auditors are appointed and their remuneration and tenure settled by the management themselves." This is possible in practice, because shareholders' votes have no effect. Complete control of shareholders over auditors must be established. One way of doing it would be to debar the management and the directors from voting at the time of electing the auditors. If this appears to be a very drastic suggession, then they must be debarred at least from securing proxies. In fact proxies must be prohibited in all elections.

Managing Agency:—The question of introducing necessary reforms in the field of management of our industrial concerns is also closely connected with the fate

of the Managing Agency System, which is a characteristic feature of company management in India. Let us discuss this problem at some length.

Managing Agency system is the result of the peculiar conditions in which British enterprise developed in India. In the middle of the 19th century the British manufacturers found that it was profitable for them to invest capital in India. Companies were registered for this purpose in England. But there was the difficuly of finding capable managers of industrial concerns in India. At this time there existed in India foreign firms known as Agency Houses. These Houses besides acting as agents of foreign firms in importing British goods and exporting Indian goods also carried on financial activities of borrowing funds and lending them afterwards at higher rates. These Agency Houses came forward to take upon themselves the responsibility of managing the industries organised by foreign capitalists. They also arranged about the finances of these concerns, a job that they could profitably do in view of their banking business. Because of this new activity, they now came to be known as Managing Agency firms. Later on they became the promoters of concerns in India as well, and appointed themselves as their managing agents. The example of these foreign agency houses was soon followed by Indian businessmen also. Thus there arose the Indian Managing Agency firms side by side with the European ones, and the system has continued to this day. The managing agents have found the work very profitable and there is no intention on their part to give it up. The principal feature of the system is the Agency agreements into which the managing agents enter with the client firms at the time of incorporation. These agreements are made for a fairly long time varying from twenty to forty years to permanency*. The common experience in this connection is that even when

*Under the New Companies' Act the position has improved.

a definite time limit is mentioned in the agreement, it has no practical significance. The great influence which the managing agents command enables them to renew the agreement in future and once a firm comes under the management of a particular firm of managing agents it is next to impossible to get it out of their control. The managing agents charge commission on production or sale or profits as their remuneration*. Besides this there are many other kinds of commissions which they charge for different kinds of services they render to their client firms*. Purchase of machinery and raw materials, arranging sales and providing capital both block as well as working, are some of these services. There are a number of other minor sources of income which they get. These managing agents always take pretty good care that the firms which they manage are financially dependent on them, not that the firms are incapable of achieving such an independence but it is not in the interest of the managing agents to permit them to achieve it. Because their control over the firm is a necessary corollary of the financial hold they have over them. The result of the managing agency system, in the field of management is definitely evil, as it is in others as of finance. The managing agents become the virtual owners of the firms they manage. The shareholders, the directors and even the auditors have no effective power as opposed to them. The provision regarding the removal of the agents is so framed that ordinarily it becomes out of question to translate it into practice. There exist so many checks, inhibitions, and hurdles in the way of such a removal. For example for moving a resolution removing the managing agents a very long notice, say of an year, is often made necessary to be given to the agents; secondly a very high majority is required to pass such a resolution; thirdly it is also provided that specified minimum, usually three-

*Under the New Companies' Act the position has improved.

fourths, of the total number of votes must be cast at such meetings; and lastly any such resolution to be valid has to be confirmed in another meeting to be convened, say, six months after the first meeting. This, with the provision for a long notice, gives the agents ample opportunity to manipulate things in their favour. They can purchase, in the last resort, shares in the security market to give them a larger number of votes to carry the day. And if in spite of all these precautions, the agents fail to hold the balance in their favour, they are to be given a very high compensation for their being removed from office, due to their inefficiency and mismanagement. Thus the system virtually becomes more or less a hereditary one.

The foregoing survey of the managing agency system clearly shows that though at the time of its origin it had some useful rôle to play, the system had outlived its ulitity and its perpetuation was a great hinderance not only in the way of efficient management but also sound finance. It must be definitely understood that the continuation of the system in the above form was not at all necessary on any ground.

The Companies Act of 1936:—With the passage of time the various defects found associated with the company-management in India began to attract more and more public attention. Specially, the Managing Agency System fell in much disrepute, and the absence of any provisions in the Companies' Act regulating a system of so vital an importance in the country's economic life as that of the Managing Agency was very keenly felt. Thus there arose a regular agitation to remove the defects of the Companies' Act by a better one. The Government had ultimately to take notice of the demand and accordingly the Indian Act of 1913 was amended in 1936.

This amending Act has no doubt improved the existing position in several respects and a brief review of some

of the more important provisions may not be out of place at this juncture. These provisions aim at not only making the powers of the shareholders' in regard to the affairs of the company whose members they are somewhat more effective, but also for the first time in the history of company legislation in India took notice of the existence of the Managing Agency system and tried to regulate it so as to minimise its defects.

So far as shareholders are concerned, a number of provisions have been inserted in the amending Act to ensure the supply of all necessary information about the company and its affairs to them. Thus, for example, it has been laid down that the prospectus "must contain all matters which would enable a prospective shareholder to form his honest judgment as to whether he should go in for shares in the Company or not. Accordingly in the case of companies which are to have managing agents, not only their names and addresses but the provisions in the Articles of Association or in their agreement as to their appointment and remuneration must be disclosed." Many other provisions have also been incorporated to equip the shareholder with full information concerning the Company's working. The accounts to be submitted have to be in more detailed forms, and compilation of Profit and Loss Account, a director's report, and a report by the auditors have been made compulsory. It is for the first time that the shareholders have been given the legal right to remove directors by passing an extraordinary resolution. Similarly the appointment of the managing agents, their remuneration and any variation in their contract made after the Act have to be approved in a general meeting by shareholders. Again any stipulation for remuneration other than statutorily provided for has to be sanctioned by the Company.

Regarding directors it has been laid down that every company shall have at least three directors and not more

than one-third of the total number shall be nominated by the managing agents. It is further provided that notwithstanding anything containd in the articles, two-thirds of the total number of directors shall be elected by shareholders. Some limitations on the powers of the directors have also been laid down, for example regarding entering into contracts with the company which must now require the Board's consent, vacating the office of a director automatically under certain conditions as of bankruptcy, accepting an office of profit under the company, or failure to obtain qualification shares within the prescribed time etc. Special provisions exempting directors from liability in respect of negligence, breach of duty, and breach of trust are also made void.

Lastly we have the restrictions on the powers of the managing agents. Provisions regarding their appointment, etc., and their power to nominate the directors, have already been noted. Of the remaining ones, the most important are those which subject the managing agents to the control and direction of the directors except to the extent otherwise provided in the agreement, limit their tenure of office to a maximum period of twenty years not only in case of new appointments but also of existing ones, in the latter case the period of office to be terminated after twenty years of the commencement of the new act if not earlier in normal course of the agreement, and make their remuneration dependent on nothing else but profits to be arrived at in a prescribed way. The evils of inter-investment as well as of giving or guaranteeing loans to managing agents are also removed by legally making such actions void. Similarly after the commencement of the new Act no contract for the sale, purchase or supply of goods and materials with the company can be valid except with the consent of the three-fourths of the directors present and entitled to vote on the resolution. A managing agent shall also not on his own account engage

in any business which would come in direct competition with the company under his management, nor a company shall purchase shares or debentures of any company under the same management as the first one, unless the purchase has been previously approved by a unanimous decision of the Board.

From the above it is clear that under the new Companies' Act some changes for better have definitely been made. The Managing Agency system as such would continue in future also but under certain prescribed standard of management. Here it is important to remember that in recent years there has taken place a rise in the number of firms established without managing agents. This is symptomic of the rise and growth of industrial leadership in the country. It is a very healthy development. Because efficiency and honesty in mangement are, after all, not things which can be enforced by legislation only. Legislation can be of some help, but a more enlightened public opinion, a better sense of duty among the entreprenuer class, and an experienced, technically expert, honest and courageous industrial leadership, are the other essential requisites to solve our problems of management as well as finance.

Industrial Finance :—It is a matter of common knowledge to-day that establishment of modern industries requires large finances. Hence no survey about the present and future industrial development of a country can be regarded as complete without a proper appraisal of the situation concerning the problem of industrial finance. We shall now discuss the question of industrial finance in India.

The capital requirements of industries can be classified into two categories: Block or fixed capital and working capital. Block capital is required to finance fixed assets such as land, buildings, machinery and other appliances

of a durable and permanent character, and extensions and replacements in case of established industries working capital is necessary "for the purchase and working up of raw materials into finished products, for stores, for expenses incidental to the marketing of products, for financing outstanding operations in respect of goods supplied, and for providing the necessary funds for meeting day to day requirements." Even a part of the working capital required is of the nature of long-term finance because in case of every industry a minimum of investment will always be necessary for holding stocks and raw material as well as meeting other needs of day to day working.

So far as India is concerned the problem of industrial finance is only of recent origin. Before economic transition from the old to the new order began to take place, Indian economy was faced with no such problem. Even after the emergence of modern industries in the middle of the nineteenth century, for a fairly long time the industries did not suffer for lack of capital. The reason was not that the banking organisation of the country was a perfect one, but the fact that barring a few exceptions India had very few developing industries in those days. It was a period of industrial stagnation in the country. Our old handicrafts had succumbed to the growing competition of the foreign imports and our political subjection disabled us from taking any defensive measure for safeguarding the interests of the masses. In a way we were, as we are even to this day, helpless visitors of a disastrous situation of economic ruin and destitution that was forced on us by an alien rule. With the beginning of the present century, however, the situation underwent a change. The Swadeshi movement of 1905 opened "the flood gates of Indian enterprise," and the question of industrial finance came to the front. The problem assumed far greater importance during the period that followed the last world-war and it still remains in an unsolved condition to

a great extent. Various commissions and committees that investigated into the economic conditions of the country discussed the problem of industrial finance as well. It was now more than clear that the country was face to face with a real problem of industrial finance.

Before we are in a position to comment on the defects of the existing system of industrial finance in the country and suggest suitable remedies for future, it is important to subject it to a critical analysis and examination. We shall first see how the capital requirements of industries in India, both in the matter of Block capital as well as Working capital, are met at present.

So far as fixed capital is concerned most of the major industries have obtained it in one or more of the following ways: (*i*) by public or private subscription of shares or debentures of the undertaking; (*ii*) by direct deposits; (*iii*) by providing money on private account by an individual or partnership. The importance of these various methods varies from industry to industry, but on the whole the general remark can be safely made that the tendency in recent years has been to rely more and more on public or private subscription of shares and debentures for securing block capital. Not only ordinary shares but even preference shares have been issued and debentures have also supplemented the capital so raised, specially in the jute industry. Another healthy development in this connection has been the splitting up of shares into those of smaller values so that even the small investors may find them within their capacity. Cases where direct deposits provide the fixed capital are not, however, rare. The cotton mill, industry of Ahmedabad deserves special notice in this connection. The method of providing money on private account by an individual or partnership was much in vogue before the advent of the joint-stock principle, and even now it is prevalent in case of newer ventures as sugar, some mining enterprises, paper, match etc. This has

been to some extent necessitated by the pioneering character of these new lines of industrial activity.

Coming now to the working capital, we find the same case of a variety of ways being employed to secure it. Broadly speaking there are four sources of getting working capital, (*i*) public deposits, (*ii*) private deposits or money or private account provided by the enterpreneurs, their friends and the managing agents, (*iii*) advances by indigenous bankers, (*iv*) and loans from joint-stock banks. The system of public deposits prevails almost solely in the cotton textile industry of Bombay and Ahmedabad, particularly in the latter. These deposits are for short-periods, usually for six months or a year. The great weakness of this system is the danger of a sudden withdrawal of money in times of stringency, when the need for the funds is the greatest. In recent years there has been a tendency at Ahmedabad to deposit funds for comparatively long periods, from five to seven years. This of course makes the danger of sudden withdrawal more remote, but still the system is unsatisfactory inasmuch as it hinders the development of an investment market by restricting the supply of good industrial securities, shares, debentures etc. available for an ordinary investor."

The second method is prevalent in all the medium sized and comparatively new enterprises, and possesses certain advantages. First, the danger of sudden withdrawal is absent in this case because those who advance funds are also interested in the success of the concern. Secondly this is the only source of getting money for such medium sized and newer enterprises as proper banking facilities for them are still more or less non-existent. Lastly these private deposits are of great help in times of depression when banks follow a more conservative policy even in regard to more solvent concerns. But the system is not without its defects. It sometimes means too much burden on a firm of managing agents which has upon it the

responsibility of financing a number of concerns. Then it also hinders a proper development of investment market.

So far as financing by indigenous bankers is concerned, we may safely say that it is only under-capitalised or small concerns in some of the newer industries as paper, sugar, match etc., which depend upon them because they have hardly any other sources to fall back upon. Though the importance of this type of industrial finance is on its decline, yet some enterprises have no other alternative than to resort to it. That is a reflection on the inefficiency of our joint-stock banking organisation and the capital market.

Last of all we have the joint-stock banks including the Imperial Bank of India which are also a source of providing working capital to our industries. The general feeling in the country about these banks is that in the matter of industrial finance they have followed an unnecessarily conservative and rigid policy. Before the establishment of Reserve Bank of India, the Imperial Bank of India acted to some extent, as the Central Bank of the country and as such its activities were hedged in with certain restrictions. Though some of these restrictions, such as giving no loan or advance for a longer period than six months or upon the security of its own stocks or shares or on the original security of inmovable property, still continue, yet the Bank in all other respects is now as free to act as any other commercial bank of the country. Naturally, therefore, as the premier commercial bank of the country with a highly qualified and efficient staff and large resources at its disposal, the bank was expected to follow a more liberal policy towards the industries. It should have started with making a survey of the financial needs of various industries and also commenced doing the German type* of mixed banking. But it is regrettable to find that

*Refer to the Section on Joint Stock Banking.

the bank has so far done practically nothing in the matter. Obviously much cannot be expected in this connexion by smaller concerns with limited resources and a staff not qualified to cope with the job. The situation can be improved if the other leading Indian joint-stock banks that possess the requisite resources in men and money take the lead. And in our opinion it is their duty to take this lead in the interests of the nation's economy.

Here it would not be out of place to give a brief account of the German system to have a correct understanding of it. It is a fact that there has existed a close relationship between the German Banks and the German Industry. The banks are not any special banks but the ordinary commercial banks doing usual banking business. This close relationship arose out of the necessities of the situation about the middle of the nineteenth century when Germany launched on a programme of industrializing the country. Those who had funds neither themselves liked to take to industrial enterprise nor were prepared to entrust their money to others who were ready and able to do the job. Thus industry suffered from a shortage of capital, not absolute but misdirected. And banks had to intervene to solve the riddle. They commanded the confidence of the investing classes, received funds from them and then diverted them towards industries. Thus arose the close co-operation between banks and industry in Germany.

This relationship between a bank and its customer industry is three-fold. First is the current account relationship, and the average German firm depends to a remarkable extent on this arranegement not only for its working funds but also for permanent assets in anticipation of recourse to the investment market. The second important connection arises in the matter of promoting companies and equipping them with capital. A number of banks form an association called a syndicate or kon-

sortium and the shares of the new company are taken up by the members which after sometime are resold to the investing public. Thus lasting participation in industrial undertakings is never their general policy. The last connection lies in the fact that banks get a representation on the Board of Supervisors of an industrial undertaking, thus getting an opportunity to safeguard their interests and influence the policy of the firm accordingly. The reason underlying the success of the German banks in this matter has been the important fact that every line of a German credit bank is self-balancing. The short-term depositors' funds are not generally invested in long-term finance which is thus restricted to the amount of capital and reserve of a bank. Whatever locking up takes place, the risk involved is distributed between a number of banks and is at the same time mitigated by keeping secret reserves. The system has certain advantages such as companies get expert financial advice and investors obtain a large measure of security through the active intervention of banks. But the corresponding disadvantages should not also be over-looked. This intermingling of finance and industry has adversely affected the importance of the small invester as well as industrial firms of moderate means have also found their freedom of action curtailed. Banks have also encouraged industrial combinations. Then, the bank's anxiety to finance industries out of nation's liquid resources has naturally produced a disturbing effect on short-period credit and the demands of trade have suffered. The post-war developments have, however, brought about a little change in the direction of the German banks being less bound up with industry than before.* This was partly the result of increased power and independence of industry as against bank owing to war profits, partly the weakness brought about in bank's position due to inflation of mark which was never fully made up, and

*These remarks apply to pre-Hitler Germany.

partly also the result of recognising the greater vulnerability of mixed banking. In spite of all these drawbacks, it cannot be denied that mixed banking of the German model has helped much the industrial development of the country and it is desirable that a start should be made in India also by big banks with adequate resources and efficient and capable staff.

In addition to the want of a forward policy on the part of the Indian joint-stock banks, another grievance against them has been in regard to the conditions on which they generally lend*. It is complained that banks in India as in other countries do not lend on the personal security of the borrower only. This rigidity is not desirable indeed, but to put an end to it not only banks have to change their attitude, but even the borrowers also.

All reasonable enquiries to ascertain the financial position of the borrower must be answered without any hitch. The tradition of the Presidency Banks and of the Imperial Bank of India, the memory of unfortunate banking failures making banks more cautious, and the readiness of the managing agents to give guarantees—all these factors have been responsible for this rigidity. The development of a bill market in the country as well as the use of warehouse receipts granted by licensed warehouses against goods deposited with them would also go a long way in solving the problem of industrial finance in the country. In the shape of commercial bills or warehouse receipts banks would have a good security to advance credit.

No survey of the existing agencies of industrial finance in India would be complete without a reference to the part the managing agency firms have been playing in this respect. The financial assistance they render to industries under their control is both direct and indirect. Not only they give direct loans, but also purchase shares

*See the Section on Joint-Stock banking.

and debenutures of the companies. Indirect assistance often takes the form of giving necessary guarantees to banks, and direct deposits to industry by public or purchase of shares and debentures of a company are also affected largely by the consideration as to a firm of managing agents of repute stands behind a particular firm or not. A firm without such a backing naturally feels handicapped, especially if it is a small and newer type of concern. This dependence of firms on the managing agents in matter of finances is not a desirable feature. But unless alternative sources of Capital supply develop, the system will persist irrespective of our likes or dislikes for or against it.

So far we have confined our attention to the already existing agencies of industrial finance and suggested improvements in their working. Let us now study the problem from the viewpoint of establishing new institutions following the examples of other countries.

One such suggestion concerns the establishment of some institutions, to study the mind of investors and help and guide them in the matter of making investments. The underwriters in England and America and syndicates in Germany perform this useful business and their expert knowledge and financial strength inspire the confidence of the investor and lead to the eventual success of a promotion. In India there have not existed such expert organisations, though managing agents may be said to have done the job to some and very imperfect extent. Therefore, establishment of new institutions is strongly advised. One such institution can be of the form of a Board of National Investment either as a department of the Reserve Bank of India or as a separate body. Another such institution is the Investment Trust Company on the British or American model. Before deciding about its suitability or otherwise to Indian conditions, it is necessary to form a correct idea about them first. These institutions become popular in Britain in the eighties of the last century. They

raise capital from the public by selling stock to them which is then re-invested in a number of securities. Thus a continuous process of investment and re-investment goes on. "Spread of risk is its basic idea and one unit of its stock would buy a stake in anything from 20 to 2,000 different stocks, stores, bonds, debentures, and what not in a number of companies." Efficient management with an eye upon the varied securities sold and purchased in a market is the back-bone of its success. The post-war (1914-18) years saw a decline of these Trusts. The complexity of economic phenomena made such a heavy demand on the after all fallible human ingenuity that it could not cope with them. This led to the rise of a new institution in Britain known as the Fixed Trust. It was borrowed from America. In this institution (the first of its kind was established in 1931 in England) spread of risk is assured as in the case of the Investment Trust but its management is not left to the caprice of an individual manager or group of managers. The securities in which a Fixed Trust invests are fixed in number and are known to every member of the investing public who is given full information about them. A unit of shares is selected by experts and is offered to the public. It is open to the investor to subscribe not to the whole unit but to sub-unit only which represents a small fraction of the whole unit. The Trust is given a life of say ten to twenty years and a bank or an insurance company agrees to act as a Trustee on specified conditions during the life of the Trust. The sub-units are issued by the trustee and the dividends are also collected by it and then distributed to the individual holders of sub-units. The movement has become very popular in England and has meant a great opportunity to the small investor. So far as the utility of both these institutions for India is concerned, it need not be over estimated. They are bound to help industrial enterprise in the country by guiding investors and instilling confidence in them; but beyond this they cannot go. A few institutions on the

model of Investment Trusts have already been started in India. Some Issue and Finance houses have also been established in Bombay and Calcutta which undertake the underwriting of securities.

For solving the problem of Industrial finance in the country, the suggestion of establishing specialist institutions has also been made from time to time. The Industrial Commission as well as the Central Banking Enquiry Committee also emphasised the need for such an institution. The Central Banking Committee, for example, recommended the establishment of a Provincial Industrial Corporation for every province with branches, if necesary, and with capital initially or permanently supplied by the Provincial Governments concerned. The Government may also purchase the debentures issued by the corporation or guarantee interest on them. It may receive long-term deposits also for not less than two years. The Government, so long as its interest and liability continues, should get representation on the Board of Directors. The business of the corporation should be to provide long-term capital to industry. Regarding the kind of industries that the corporation should help the Banking Committee did not like to fetter the judgment of the Provincial Government concerned. It only remarked that the enterprise to deserve help should be "of the benefit to the public and add to the productive power of the province and provide employment for its people." To co-ordinate the work of the various corporation an All India Industrial Corporation may also be brought into being. In the matter of establishing such state-aided institutions for the purpose of providing industrial finance, steps have already been taken in the United Provinces and Bengal. The Industrial Corporation of the United Provinces, and the Industrial Credit Corporation of Bengal are the two examples of such state-aided institutions. Both of these corporations however aim at helping small scale industries only.

Another attempt on the part of the state to help industries financially has been made in a number of provinces by enacting what is known as a state-aid-to industries Act. The Madras Government was the first which passed such an Act in 1922 and thereafter a number of Provinces have followed the example *e.g.*, Bihar and Orissa, 1923; Bengal, 1931; C.P. 1934; and Punjab 1935. The forms of state-aid to industries in all these cases have been more than one such as granting a loan, guaranteeing a cash credit, overdraft or fixed advance with a Bank, subscription of shares or debentures or both, guaranteeing of a minimum return on part of the capital, supply of machinery on hire-purchase basis, and grant on favourable terms of land, raw material, firewood, water, services of experts and Government servants as well as payment of subsidy for the conduct of research or the purchase of machinery. So far as the results of the working of these State-aid to industries Acts are concerned, it must be admitted that they have been uniformly unsatisfactory. Generally the concerns that have been helped have not been in a position to repay the amounts lent; they have also so often failed to survive as successful enterprises. The causes of this failure are several. Unplanned investments, wrong selection of industries to be helped, absence of any proper distribution of risks amongst different kinds of concerns, bureaucratic delay in the disbursement of loans, and the absence of a suitable and efficient machinery to disburse public funds after careful investigation have been the more important factors underlying the disappointing experience we have had of these measures of state-aid. There is one more point that deserves mention in this connection, and it is the fact that these state-aid to Industries Acts were launched during a period of severe depression and therefore the unsatisfactory record of state-aid concerns was not any peculiarity of them only. This leads us to the further conclusion that merely on the basis of results

achieved by these Acts, no conclusive opinion about state-aid to industry can be formed. Because there is every reason to believe that under favourable circumstances better results would be obtained.

So far we have not only analysed the present position but also discussed the several suggestions made to improve it in relation to industrial finance in our country. It remains for us now to arrive at certain definite conclusions in the matter. It would necessitate the summing up of the whole position in a clear cut way. We have seen that industries require long-term finance to meet their demands for initial capital, future extensions, replacements and development including rationalisation, and for that minimum amount of working capital which will permanently remain invested in the business in form of stocks, unfinished articles etc. Besides this, funds, are required for meeting day to day expenses also which are of the nature of short-period finance. The best method of providing initial capital for industries is by way of issuing share-capital for public subscription. It must be admitted that on the whole industries in India have not experienced any great difficulty in obtaining their capital in this way, though the problem has certainly been more acute in the case of smaller concerns in the larger industries and in the medium-sized and smaller business generally. This difficulty can be solved to some extent by a forward policy on the part of our leading commercial banks which may follow their German conferers in this respect. They may form syndicates to issue and under-write shares of joint-stock companies and may also subscribe to them in the beginning with a view to unload them afterwards. The establishment of such institutions as Investment Trust Companies or Fixed Trusts would also be of help in this respect. Regarding the provision of finances to new industry during the development period as well as for extension, modernisation

and replacement for established industries, debentures have always been an important source. Generally the initial share capital is soon exhausted in meeting initial expenses such as of acquiring land, setting up the factory, installing the machinery, and providing other equipments, and little is left for the period of development. Debentures, therefore, are a convenient method to meet the shortage of capital. But in India they have not been very popular. Mostly this has been so because banks in India have not looked upon this method of raising finance by joint-stock companies with favour. Therefore there exists in the financial organisation of our country a very serious gap owing to the absence of a suitable machinery to provide finance to industry for extensions, replacements and rationalisation as well as for developmental period in case of newly started concerns. As the post-war history of industrial finance in several European countries shows, the gap has been felt to exist in their cases also. It is exactly here that we feel the necessity of setting up a specialist institution for the purpose which must also be state-aided. Let us discuss a bit in detail the type of such a state-aided institution for India. The Industrial Commission placed before the country the model of the Industrial Bank of Japan. For various reasons such a mixed institution as that of Japan would not suit our purpose. We want an institution specifically devoted to the financing of long-term needs of our industry on sound and well-proved lines which does not take upon itself the responsibility of doing any other kind of banking or investment business as the Industrial Bank of Japan does. Besides, the loans that it provides are also not long-term loans in the true sense of the term, being limited as they are to a maximum period of ten years only. The post-war (1914-18) development in European banking has been associated with the rise of a special kind of institution known as the Industrial Mortgage Bank. This would prove a better model for our

country than the Bank of Japan. Though even this institution will have to be adapted to our special needs and requirements. Let us go into this question in somewhat detail.

The first point is whether the institution should be established on an All-India basis or a Provincial basis. We have already seen that the Central Banking Committee recommended the setting up of Provincial Corporations. The strongest argument that can be advanced in favour of provincial institutions is that they can better look to their provincial needs specially of small-scale industries. But this advantage has also a corresponding disadvantage in the fact that such an institution would always stand in the danger of falling a prey to particular local interests and their mutual rivalries and jealousies. There would be the further difficulty under this system of our not being in a position to plan the industrial development of the country from an All-India point of view as provincial interests would always predominate. Then an All-India institution is best fitted to issue bonds. It would conduce to both their security as well as marketability. It would be possible for an All-India institution to distribute risks better and inspire greater confidence within and without the country. Keeping in view all these facts, therefore, ordinarily our verdict must go in favour of an All-India organisation. But taking into consideration the vast area of our country and the anxiety of safeguarding the interests of small-scale industries, a compromise has been suggested according to which the most suitable type for India would be "an All-India Bond Issuing Institute and a number of Credit Granting Provincial Bodies affiliated to it but having no power of bond issues."* This All-India institute would not grant loans direct to industries but to Provincial banks which in turn would

*Refer Industrial Finance in India by Saroj Kumar Basu for a detailed study, Chapter XI.

lend to individual enterprises against the security (in form of mortgages) of industrial real estate, land, factory buildings, machinery, plant etc. The loans must be for long periods, say up to the maximum limit of 20 years. The purposes of the loan should not be the provision of initial capital by subscribing to shares and purchasing debentures of joint-stock companies, but to finance all schemes of re-organisation, extension, replacement, and rationalisation. Loans for developmental period are also included in the case of new industries. No kind of industry, small or large, new or old, should be excluded from the scope of these lending banks. In the matter of recovery of loans, the institutions must be granted certain special facilities and privileges to facilitate realisation of their moneys, *e.g.*, the claims of the banks must take precedence over all other claims. The banks should not be permitted to raise public deposits or grant short-term loans. The funds of the All-India Institute would be raised in two ways—by issuing share-capital and selling bonds. The share-capital should be contributed partly by the Central government and partly by the various provincial institutions. Similarly the Government should also guarantee the bonds of the Central Institute. The capital of a provincial institute should be divided into two classes, say A and B, the former constituting 75% and the latter 25% of the total capital. The former will be held partly by Provincial Government, partly by public and partly by banks and other institutional investors. The B class stock must be taken up by would-be borrowers say to the extent of 5% of their borrowings. The Provincial banks will hand over to the Central Institute the mortgages of their industrial borrowers equal to the amount of the loan they receive. To ensure further security the principle of joint and several liability of the borrowers up to a particular extent should also be applied. For example provincial banks may be held severally and

jointly liable or 10% of the loans granted by the Central Institute, similarly the borrowers of the provincial banks may be jointly and severally responsible for loans of the latter to the former to the same extent. This then is in brief the outline of specialists institution that may be set up in India for providing long-term finance to Indian industry.*

Coming to the problem of working capital we have only to repeat what we have already said that commercial banks in India should follow a more liberal policy. Besides this, it is also important to remember that the demand for a part of the working capital should be met from the initial capital which should be sufficient not only to meet initial needs of block capital but leave something for this purpose also. Funds raised through the issue of debentures can also be used for this. What improvements in the field of commercial banking in India are necessary from the viewpoint of industrial finance, we have already discussed.

Before we conclude our remarks on the problem of industrial finance in India, we must make some reference to a more fundamental aspect of it. All our foregoing discussion about industrial finance in the country has been made from the standpoint of making the best use of the existing resources of the country by the development of promoting investment facilities as well as investment habit and also by improving the efficiency of the country's banking machinery to make the best use of the existing sources. But the potentialities of all these things are limited by

*In the war-end boom a large number of institutions, arose in India under the title of 'industrial banks. The Tata Industrial Bank (1917). The Calcutta Industrial Bank (1919) and the Indian Industrial Bank (1919) were some of the important names in the lot. Most of these banks collapsed in the post-war slump. It was in fact a misnomer to call them 'industrial banks' and they not only combined investment banking with Commercial banking. the latter predominating, but also financed from short-term deposits long-term finance. These banks in fact neglected all principles of sound banking. Therefore to draw any conclusions against specialist institutions on the basis of the experience of these institutions cannot be justified.

a more basic factor, the people's capacity to save which in its turn depends upon their income. For an all-round speedy industrialization of the country vast amount of capital resources would be needed, and India poor as it is may fail to supply the total need. For this three ways are open, (1) the increasing of people's income, (2) bringing in of foreign capital, or adjusting the tempo of industrialization, to our capital resources. But people's income would increase as our country becomes economically more and more developed which includes within its scope industrialization as well. Thus industrialization would not only be the result of our capital resources but in its turn would also act as a very important casue of further enhancing them. And hence the process may continue. This shows the still more importance of industrial development of our country. So far as the question of foreign capital is concerned, we shall examine it in the following pages.

Foreign Capital:—In all discussions of industrializing the country, the question of foreign capital has occupied quite an important place. The practical importance of the question has increased all the more on account of the predominance of foreign capital that already exists in India. It was since the middle of the 19th century that the flow of foreign capital into India began and to-day many of our important industries and business enterprises, such as banks, shipping companies, railways, insurance companies, tea and coffee plantations, mining companies, tanneries, jute manufacturing concerns etc., are carried on and controlled by foreign capitalist interests. The straight off issue before us is how far it may be in the interest of a particular country to import foreign capital for its economic development, and what is the position of India in this respect

The need for importing foreign capital in a country arises to supplement the inadequate internal capital resour-

ces required for promoting the economic development of the country. If foreign capital can yield a rate of income *which exceeds the stipulated* rate of interest to be paid on it, and can be raised on terms more advantageous than those on which capital inside the country can be raised, then apparently a case is made out for importing the foreign capital. The greatest merit of such a capital lies in the fact that it helps the country to march forward towards its goal of economic well-being at a speedier pace. But as the country advances further and further economically, the need for foreign capital should also be progressively reduced. Thus in the course of time foreign capital works in the direction of minimising its own need. Foreign capital, however, has its danger points also, the most important of them being the creation of vested interests in the country which might run counter to the best interests of the nation. India offers a very good example in the case. Therefore, in respect of foreign capital we are driven to the conclusion that an unrestricted inflow of such a capital in any country can never be in the interests of that country. The Government, to safeguard the national interests, should lay down such terms and conditions which would, on the one hand, not give foreign capital any controlling hand in the economic affairs of the country, and, on the other, would procure all the possible advantrages of such a capital. The following restrictions may prove helpful in this connection: Foreign companies should be incorporated and registered in India with a rupee capital, a part of the share-capital should be reserved *for Indian nationals*, a certain percentage of the directors should be Indians, and lastly facilities for the training of Indian apprentices should be provided. How far these restrictions would really succeed in the achievement of the objectives they have in view cannot be judged in a priory *manner*. It is only by a process of trial and error that we would be in a position to evolve actually effective

regulation of foreign capital. But a beginning should be made in this direction.

To take the case of India specifically. The view that India possesses vast untapped capital resources cannot be rejected straight off on the ground of our proverbial poverty. Because recent experiences in the matter of raising capital by protected industries, concerning the large outflow of gold since 1931, and investment in Government securities as well as the increasing volume of deposits in banks, co-operative institutions and post-offices are quite encouraging. Therefore in relation to the present rate of industrial advance internal capital may be regarded as sufficient, but to meet the needs of a large programme of industrialization our internal resources may prove inadequate. In that case the need for importing capital may have to be faced. In such a case all necessary restrictions must be imposed on its import. To arrange for such an import and allocating the resources to state as well as private financial institutions, a National Investment Board should be set up. The Government should also ensure that beyond guaranteeing interests on the capital, no further liability is incurred*. The restrictions should apply not only to new imports of capital but also to existing foreign capital so as to make it really useful for the nation. Here an important point must be referred to. Under the Act of 1935, India cannot enjoy real fiscal autonomy. On terms of reciprocity, which in practice have little meaning as between India and England, discrimination against British capitalist interests would not be permitted. This may very well prove a strangulation for the development of our national industries. The only permanent and effective remedy for this is the rejection of the constitution of 1935 and the establishment of a truly national government in the country. As we have seen on so many occasions, here also we are faced with the

*Industrialization: Oxford Pamphlets or Indian Affairs.

same problem of our political emancipation that must precede the emancipation of our national life in its all the other varied departments. That is the first hurdle that must be overcome.

Before we close, there is another very dangerous development that has been taking place recently in our country, a reference to which is highly necessary. To take the advantage of the state protection to Indian industry, foreign business concerns have begun to establish their manufacturing subsidiaries registered in India by adding to their original name the words 'India Ltd.' Lever Bros. India Ltd., Dunlop Rubber Co. India Ltd., Bata Shoe Manufacturing India Ltd., Good Year Tyres and Rubber Co. India Ltd., are a few examples in the point. To give their concerns a Swadeshi garb, they give a seat or two to Indians also on their Board of Directors. Their competition to home concerns is a fatal one. Hence it is urgent that very effective steps should be taken by the Government to check this growing menace after a careful investigation into the problem being made. Imposition of a special excise duty equal to the amount of protection can be one way to check this great evil.

CHAPTER XIX.

INDUSTRIES—LABOUR.

The rise of wage earning class in India :—Except for the caste system which was itself socio-economic in origin and divided the people into different industrial classes, there did not exist in India any wage earning class before. With the growth of modern industrialism in India such a class came into existence.

The decline of craft industries, which supplemented the agricultural income, and the decrease in the size of farms due to the growth of population without a corresponding growth in agricultural land have made it necessary for a large number of cultivators to hire themselves out not only for a part of their time, but a large permanent landless wage earning class has appeared which seeks to earn his living by hiring his labour.

The demand for labourers came simultaneously with the British in India. Indigo, Tea and Coffee plantations were established and they required an increasingly large number of labourers. The abolition of slavery in British colonies in 1834 was followed by a great demand for Indian labourers in those colonies to develop them. Soon after modern industries like rail roads, collieries, cotton and jute factories were established. In the beginning factories, workshops, coal mines and plantations found it difficult to get sufficient labourers. But gradually the pressure of population went on increasing and a growing number of rural population were forced to leave their ancestral homes for factories and plantations. Formerly the factory owners had to send their recruiting agents to far off rural areas for recruiting labourers for their respective factories and paucity of labourers was a standing trouble in industrial centres. But now with the excep-

tion of Tea plantations of Assam the situation has changed. The labour market has shifted from village to the very factory gates and more persons offer themselves than can be absorbed by the factories. So that workers have to purchase their appointment by bribing low officials.

Though during the last three decades there has been a rapid development of industries in India, Iron Steel cement, match, sugar, paper, glass, and leather besides jute cotton and coal already existing developed. But these industries also could not give employment to the rapidly increasing wage-earning class in India.

It has been estimated by competent authorities that the total figure of workers employed in "organised labour" may be taken as 4 to 5 millions. This includes all the workers of factories, plantations, mines, railway workshops, Dock-yards, water works, Electric Supply Companies etc. About the half of the factory population is concentrated in the manufacturing areas of Calcutta and Bombay while up-country industrial centres like Ahmedabad, Sholapur, Cawnpore, Jamshedpur, Madura, Coimbatore, Madras, Nagpur, Delhi and Lahore account for a great part of the rest. The coal fields of Bihar and Bengal and the plantations of Assam and the extreme south of India are naturally the centres of mining and plantation population respectively.

The Agricultural bias :—The factory labourer in India is mainly drawn from rural areas. Here lies the difference between the factory labourer in the west and the Indian factory worker. The former is drawn mainly from urban bred population. It has been said that the Indian industrial worker is an agriculturist by temperament and factory worker by necessity. The Indian factory worker are nearly all migrants. Strangely this migration from rural areas is not a permanent one. It is a temporary transfer and the worker continues to

regard his village as his home. He cherishes the hope of returning to his village now and then and anxiously waits for the day when he will finally leave the factory and ultimately go to his native village. During his stay at the industrial centre he regularly pays visits to his village. The worker's contact with the village is close and constant in great many cases while with a few it is more psychological than real.

This does not however mean that the Indian factory worker is essentially an agriculturist as some writers and even employers think. The fact is that they have had village upbringing, they have village traditions, and they retain contact with their village. The number of factory workers who have a direct interest in agriculture is far fewer than is supposed though large numbers of them keep a home and members of their family in their village, remit a portion of their wages there and return there periodically. Even where workers live with their families they look to some village as there home. In the seasonal factories there is an intimate connection between industrial and agricultural work, in the collieries too, there is a substantial class directly interested in agricultuie. But the perennial factories which offer work throughout the year command a growing number of employees who are more or less dissociated from the land. But all the same they have village ties and look forward for the day when they will finally retire to it. Those who look upon industrial centres as their home are a very small percentage of total labour force.

The reason why the labourer does not permanently stay on in the industrial centre is the absence of any attraction for him in the city. He is pushed towards the industrial centre and not pulled by it.

Causes of Migration :—Owing to growth of population, decay of cottage industries, there is very heavy

pressure of population on land in villages and the difficulty of finding an adequate livelihood in one's native place forces him to migrate. Social disabilities of those who have been out-casted and that of the untouchables also force some to migrate. But city in itself has no attraction to the villager. Therefore he comes back to his village when he retires.

Advantages and Disadvantages of temporary stay :—Such contacts with the village, while they exercise an enormous influence on the health and the outlook of the worker. His contact with the village enables him to keep better physique, and makes his outlook wider. It provides a sort of unemployment and sickness insurance, and a stay-by in times of strikes. But it has the disadvantage from the industrial point of view of being responsible for the large amount of turnover, the low efficiency of the labourer, and the slow progress of trade union movement. To the question whether effort should be directed towards building up an industrial population divorced from villages, or whether the existing contact should be maintained and stimulated, the Whitley-Commission has given a clear verdict that the link with the village is a definite asset and should be encouraged and regularised.

In case large scale industries are decentralised and established in rural areas besides other economic advantages this change will do away with the disadvantages of migratory labour population and will secure even to a greater extent the advantages of village connection. Housing, industrial unemployment and such other problems will then be easily solved.

Recruitment of labourers :—So far recruiting is concerned recent years have seen a great change. The labour market has shifted from the village to the factory gates. But this has not meant the assumption by the employer of direct responsibility for the engagement of

his own workers. This duty is still left to the intermediaries and specially the jobber. This jobber is one of the most remarkable features of the Indian factory system.

Jobber :—The jobber in the factory is primarily a chargeman responsible for the output in his department and the supervision of the workers under him. Employment, dismissal, leave, promotion, or transfer, to a better job are practically under his control. He also acts sometimes as a mechanic and generally assists the un-skilled worker. Many jobbers follow the worker even further than the factory gates, he may finance him and he may also be the owner of houses in which the worker lives.

But the most important duty which the jobber performs is the work of an intermediary between the employer or manager and the workers. The jobber has become an indispensable link in the chain of officials. If there is trouble of any kind jobber's co-operation is essential for the restoration of normal conditions.

When a villager arrives in the city in search of employment he has to purchase a job from the jobber. Even to get employed as a substitute is not easy, the jobber must be paid. The jobber is not the only one to be satisfied there are other clerks as well. Bribery is rampant in Indian factories, railway, workshops, and other establishments.

The Royal Commission on labour paid a great deal of attention to this problem of bribery and suggested that jobbers should be excluded from the engagement and dismissal of labour and suitable labour officers must be appointed to carry on this function. The labour officer must be directly subordinate to the general manager. No body should be appointed or dismissed by any head of the department but the matter must be referred to the labour officer. But this recommendation has been totally ignored. To weaken a trade union, to smash a strike the employers depend upon the support of the jobber at every

stage. How can they be expected to eliminate one who if unscruplous is very helpful. Even to-day the jobber rules supreme in most of the Indian factories. The Bombay Textile Labour Committee (1940) also emphasised the need of complete dissociation of jobber from the work of recruitment and dismissal as it leads to corruption and bribery in the factory.

The method of recruitment mentioned above obtain in most of the perennial factories and within recent years owing to the rapidly increasing pressure of population on land in seasonal factories as well in varying degrees. But the labour for the plantations, mines, and large public works has still to be recruited through contractors and, overseers known in plantations as 'Sirdars' in the north and 'kanganies' in the south.

Tea Plantations :—Recruiting labourei is an an expensive item for the tea industry about Rs. 84 per adult and Rs. 64 per soul. The Planters send sirdars to recruiting areas for securing labourers. Serious abuses have occurred in regard to the recruitment of labourers. But now the old acts have been repealed which gave tremendous power to tea planters over the labour. Under the existing act—Tea District Emigrant Act of October, 1933 a controller of emigrant labour is appointed. He is invested with the powers to safeguard the interests of the workers. According to the act a worker and his family are entitled to repatriation at the expense of the planter. The period of service which entitles the worker to this privilege is 3 years. It can be curtailed for ill-health or some other special cause. Certain areas from which labour is recruited are notified as "controlled emigrant areas" (Bengal, Bihar, Orissa, C.P., Madras and U.P.) Licenses are granted to local forwarding agents for recruitment in the controlled areas which are liable to forfeiture if abuse of law can be proved against him.

Seamen:—Shipping in India is a monopoly of European concerns. They get labourers recruited through shipping brokers with Government Licenses. This system leads to several abuses. Bribery is rampant, the problem is that there is a large body of un-employed seamen. In Bombay only one-third of the total number of seamen gets employment .at a time. In Calcutta in the percentage of those who can get employment is still less. The Government of India appointed a committee of enquiry to enquire into the system of recruitment of seamen in 1921. The committee reported that an employment bureaux should be set up to obtain for the workers continuity of employment and relief from bribery which was wide-spread and serious. Owing to the opposition of the shipowners orders were issued only in 1929. Licensed brokers and other intermediaries have not been abolished though in theory their powers have been curtailed. This has not improved the lot of the sea-men at all and bribery is as much prevalent to-day as before.

Mines:—Recruiting of labourers in Indian mines is carried on by 'Raising Contractors'. The Royal Commission on labour condemned this practice and suggested direct relationship between the colliery managers and the workers. But the 'Raising Contractor' still flourishes'.

Public Works:—The Public Works Department, Municipal Boards, and District Boards, all employ a large number of labourers through contractors. Their lot is very hard. They are paid very low wages and are made to work for long hours. The Royal Commission on Labour recommended that actual wages to be paid to the worker for different kinds of work should be specified in this contract and children below the age of 12 should not be allowed to work.

In carpet manufacturing and Bidi making the practice has been widespread of pledging child labour

against advances of money to the parents. Even though laws have been made to penalise it the practice persists.

The basic difficulties in solving this problem of exploitation of workers are scarcity of employment in rural areas, *social causes, and the appalling illiteracy* and ignorance of the workers. Unless social conscience has been roused to the terrible exploitation of the worker and the employers take drastic action this exploitation can not be stopped.

The need of Indian industries is a better method of recruitment of labourers so that the industrial efficiency be raised by the recruitment of better types of labourers. Not only a better method of recruitment is essential but some arrangement for giving technical training to the worker is also very much called for.

Unemployment:—Two factors hitherto operated to protect industrial workers against the dangers of long period of illness. In the first place the rate of turnover involves the creation almost every month of a large number of vacancies, so that ordinarily the worker who is out of a job need not long remain unemployed. But this turnover attracts the industry an unnecessarily large numbers. The second factor is the steady growth of industry.

In spite of this unemployment has existed among all the industries in India with the exception of Tea industry and to some extent in coal. During pre-war years unemployment became acute. But as the factory population is made rather than the question is mainly one of preventing the number of city workers being swollen by men for whom there is no work.

Regularisation of employment by giving leave to a worker with or without pay and providing a little bonus or provident fund after an approved service, or any such other measure will go to check the rapid turnover in the

factories and it will also check an influx of workers from villages who are not needed in the city.

Measures such as these will not provide a remedy for any general unemployment resulting from periodic economic depression and therefore some people suggested the establishment of Employment Exchanges. But the Royal Commission on Labour did not favour the idea on the ground that under the present circumstances in India Employment Exchanges will not be of much value. In their opinion relief to the unemployed industrial labourers could be provided on the lines of Famine Relief Insurance system in India. The essence of this system is that schemes of work for workless may be prepared beforehand by the corporations or trusts such as slum clearance roads, and drainage construction in the industrial centres and once it has been established that there is serious unemployment among the workers these schemes may be taken into hand. The Royal Commission on Labour also rejected the idea of unemployment insurance for India because in their opinion it could not be worked successfully in India as data is not available.

Employment Exchanges :—But it seems that (after Labour Commission) the Offical opinion has undergone a change and experiments are being made in this direction. The first Employment Exchange in India was established by Employers, Association of Northern India at Cawnpore in 1938. The working of the said Exchange is as follows :—

All unemployed workers are registered and are given attendance cards with instructions to attend at the exchange daily in the mornings. The majority of members of the Association draw their entire labour requirements through this exchange. When the exchange receives indents of labour from factory management about 25

to 50 p.c. more workers than the numbers actually required are forwarded so as to give management margin of selection. Registration is affected according to industries and occupations.

Sind Government has also appointed in March 1941 the Commissioner of Labour as Labour Exchange Officer. Names of unemployed workers are registered in his office and whenever vacancies are known to exist place-ments are made. The Bombay Textile Labour Committee (1940) has also emphasised the need establishing public labour exchanges at Bombay, Ahmedabad, and Sholapur by Government for all industries including Government factories and workshops. After war Government proposes to estabish Labour Exchanges.

Efficiency of Indian Worker :—The Indian labourer has been very much abused for his inefficiency. Mr. C. R. Simpson made a comprehensive study of the efficiency of the Indian and English operative in Madras and Lancashire Textile factories and came to the conclusion that one English labourer could do the work of 2.67 Indian labourers in the Cotton Textile industry. Sir Alexander McRobert remarked that the English worker is three to four times as efficient as the Indian. While giving his evidence before the Whitley Royal Commission on Labour Sir Mody said "In Japan a weaver minds six looms and efficiency there is 95 p.c. In China a weaver minds 4 looms and efficiency there is 80 p.c. In Bombay a weaver minds two looms and efficiency is 80 p.c. Calculated on the basis of Japan and China, a weaver in Bombay is paid between 200 and 300 per cent more than a weaver in China and Japan." On the other hand, Sir Thomas Holland bears testimony to the superior efficiency of the Indian worker, "With Indian labour, you can tackle any industry for which the country is suitable. I have seen labourers at Jamshedpur who only a few years ago were in the jungles of the Santals without any education. They are now handling red-hot steel bars, turning out

rails, wheels, and angles of iron as efficiently as you can get it done by an English labourer." Mr. T. W. Tutwiler, formerly General Manager at Jamshedpur is of opinion that Indian labour can be trained to replace almost every kind of foreign imported labour.

In estimating the comparative efficiency of Indian factory worker one should not lose sight of the fact that all the data showing comparative inefficiency of the Indian labourer has been either collected by Englishmen or by the capitalist, mill owners. In the first case there is a possibility of error due to race prejudice and in the second case the mill owners always like to prove that labourers work in India rather leisurely and are unsteady and inefficient so that long hours of work are necessary and high wages cannot be paid. Even the Englishmen who collected this data were either themselves industrialists or agents of mill owners. Therefore their findings cannot be accepted as final unless some impartial agency does this calculation.

Moreover the efficiency of labourer depends upon a number of fundamental conditions within the industrial organisation, conditions which differ in different countries and even in individual mills in the same country, to such a degree that comparison is very difficult.

For instance it can be pointed out that the difference of output was rather due to greater cheapness of the Indian worker than to inefficiency. In Lancashire it is worthwhile to put only one worker to 4 looms because you save 3 workers wages. But in India the wages are so small that it is not worthwhile to save that amount at the expense of running the looms at a lower speed, and so the real difference between the efficiency of a Lancashire and an Indian operative is very much overstated by the ratio of two and two-thirds.

Besides this the machinery used by Indian mills is not always up-to-date. The raw material used is inferior for instance cotton in India is of a short staple and of a course type. Conditions of work are very unsatisfactory inside the factories in India. In some industries like cotton textile and bidi making artificial humidification is practised. Long hours of work is another factor which should be considered in connection with the study of efficiency. All these go to reduce the output of the worker and therefore it will be wrong to compare his efficiency with those of other countries' operatives.

But whatever may be the proportion, the inferiority of the standard of efficiency in Indian mills as compared with that in the industrial countries of the west cannot be denied. There is no doubt that generally speaking, Indian labour is not efficient as it might be.

Effects of Environments :—First of all unlike industrial workers in other countries, the worker here is brought up in a rural environment, and does not therefore possess the keenness of mind and eye possessed by those brought up in an industrial atmosphere. That this is a remedial defect is proved by the skill and intelligence of Bombay and Calcutta operatives which were noted by the Industrial Commission and are obviously due to the fact that these centres were the first places of modern industries in India. Among the general factors which contribute to a lower efficiency is the enervating climate of the country which creates a strong disinclination to manual labour. The weaker physique and lower vitality of the Indian worker which have made him less efficient have been ascribed by Major Norman White the former Sanitary Commissioner to the Government of India as due to Malaria, hookworm infection, kala-azar, and tuberculosis etc. Recent experiments have shown that the output of labour which has been treated for hookworm infection has increased by as much as 25

per cent. and this increase in efficiency has been accompanied by a reduction of disease of all kinds. A campaign for better public health and sanitation has therefore to be initiated atonce, and that not only in the industrial areas. In rural areas which are the recruiting centres of labour, there prevail the same appalling conditions. According to Sir John Megaw, formerly Director General of the Indian Medical Service, India has a poorly nourished population, only 39 per cent. of the population being considered fit to be classed as well-nourished, (2) the average span of life is less than half of what it might be, (3) periods of famine or scarcity of food have been occurring in one village out of every five during a ten year period in which there has been no exceptional failure of the rains, (4) in spite of the excessively high death-rate (22.4 per mille) the population is increasing (birth-rate 35.5 per mille) much more rapidly than the output of food and other commodities, (5) motherhood is forced on girls too early in life, the maternal mortality rate is as high as 24.5 per mille and the infantile mortality rate 170.5 per mille, (6) Epidemics of cholera, plague and smallpox are very much prevalent and malaria is constantly present throughout the greater part of the country, (7) worst of all there is little evidence that the full gravity of the situation is realised. In this connection the resolution of All-India Conferences of Medical Research workers is an eye-opener. The resolution runs as follows:—The Conference believes that the average number of deaths resulting every year from preventible diseases is about 5 to 6 millions, that the average number of days lost to labour by each person in India from preventible diseases, is not less than a fortnight to three weeks in each year, that the percentage loss of efficiency of the average person in India from preventible malnutrition and disease is not less than 20 per cent. and that the percentage of infants born in India who reach a wage-earning age is about 50 whereas it is quite

possible to raise this percentage to 80 to 90%. The conference believes that these estimates are underestimates, but allowing for greatest possible margin of error, it is absolutely certain that the wastage of life and efficiency which result from preventible disease costs India several hundreds of crores of rupees every year. Added to this is the great suffering which affects many millions of people every year.

Besides the weaker physique and lower viladity of the Indian worker due to causes noted above another important cause of his inefficiency is his being illiterate. The principle of compulsory and primary education does not apply in India. Though the experience of Bombay municipality in two labour wards has yielded very encouraging returns. The Whitley Commission emphasised that the industrial wards of municipalities have a special claim in the matter of introduction of compulsory education. But little has been done in this direction. Moreover there is no provision of technical training to the worker.

One of the special causes which account for the comparative inefficiency of the Indian worker is the unduly long daily period of work. It is true that it has been shortened to 9 in the day by the Factory Act of 1934, but, this is too long for a tropical country and much of the 'loitering' of which the Indian worker is accused to-day and may be explained to long hours of work. The world demand today 40 hours week and recent International Labour Conventions are trying to give effect to these lower limit.

Further the level of Indian wages is very low, and does not enable the worker in the lower income-groups to meet even the elementary needs of life. The monthly expenditure on food alone being 50 per cent. of his earnings. The standard of living of the Indian worker is very low. The houses in which he usually lives are very inventilated, and overcrowding is excessive. In fact he usually lives

in houses which are unfit for human habitation. He has no means of healthy recreations and therefore he takes to the habit of drinking toddy or country wine in order to stimulate his exhausted body. At the Washington Textile Conference of 1937 Mr. B. R. Bakhale argued that it is possible to improve wage standards in India without effecting the competitive efficiency of industry, pointing out that the actual labour costs in Ahmedabad textile industry where wages are the highest in India, are lower than in the city of Bombay.

Remedy :—From the above description of the causes of inefficiency of the Indian worker one can easily find that the inefficiency of the Indian worker lies not so much in any inherent defects of character as in the nature of his material environment. The improvement of efficiency can only be secured by a rise in the standard of comfort and an improvement in public health. These ends can be attained by securing high wages to the labourers, education, improved housing, welfare work, and a general policy of betterment in which an organisation for the care of public health must play a prominent part. If the children of workers are provided with education, a new generation of workers will grow up who will learn to regard mill work as their fixed occupation. Better housing is a most urgent necessity. Facilities for health, amusement, shorter hours of work, and other measures for economic betterment such as co-operative consumers stores, and credit societies, are equally important. The conditions in which the industrial worker lives and works in this country must be improved and brought to the level of those obtained in western countries if efficiency is to be aimed at. This will require considerable rise in the standard of living of the workers. Better houses, better conditions of work in the factory. If the existing and the future industries of India are to hold their own against his ever-growing competition which will still be fiercer after war these prob-

lems shall have to be solved. No industrial edifice can be permanent which is built on such unsound foundations as those afforded by the Indian labour under its present conditions."

Working conditions :—Proceeding to the conditions of actual work in factories it is found that sanitary conditions are as a rule satisfactory in large factories, and considerably in advance of the conditions in the homes of the workers. But this cannot be said of smaller factories. In many of these, the annual lime-washing required by law is not carried out, the cleaning of floors is neglected, rubbish and debris is allowed to collect, drains carrying waste water and sewage are not properly constructed, and the latrine accommodation is neither sufficient nor clean. The workers naturally object to use filthy latrines so that the surroundings of the factory become insanitary. It has been found however that they are quite willing to use them if they are kept clean.

The supply of drinking water is not always satisfactory. Tap-water becomes warm during a large part of the year. Inspectors must insist on satisfactory supply of drinking water for labourers.

In many factories and particularly in certain manufacturing processes concerned with cotton, jute, wool, paper, leather, and in cotton ginning factories a large amount of dust is produced, and as arrangements for removing it are still defective the health of the workers is endangered. The factories must be made to set up mechanical devices such as exhaust boxes, pipes, and fans etc. In many factories the temperature during warm months is higher than that of the air outside and the air movement is less. But even a moderately dry temperature and a regular supply of fresh air are not sufficient for the health, comfort, and efficiency of the workers. Fresh air to be effective must be in motion and produce changes in the tem-

perature of the body. It has been proved that there is a definite relation between the condition of the air and the health and efficiency of workers who breathe it. The installation of electric fans therefore is most desirable. The white-washing of roofs and the spraying of water on roofs can also be carried on without much cost to lower the temperature. The Labour Commission has suggested that the Chief Inspector of Factories should be empowered to order the owner of the factory where the cooling power is so inadequate as to cause discomfort to the worker to carry our particular measures to make the factory cool if their cost will not be very heavy. In fact if the factory remains very hot the factory owner should be forced to adopt cooling measures whatever the cost.

The proportion of the number of accidents to the number of workers has risen considerably during the last ten years. This increase is largely due to better reporting of accidents although reporting is still not quite satisfactory. Factory owners try to suppress news of accidents, and are helped in this matter by the workers habit of returning to the village if they suffer serious illness. Nevertheless there has been an increase in risk run by the workers. An increase in production per worker is bound to cause an increase in the incidence of accidents per worker. Thus imperfect guarding of machinery and inadequacy of safety devices are not the only causes of accidents. These are due to an appreciable extent to the ignorance of the workers regarding the risks that they are running while doing particular kinds of work, to their carelessness or that of their overseers or employers, and to long hours and overwork which destroy the alertness of the worker. To reduce the accidents to the minimum it is necessary that the machinery should be properly guarded, safety regulations should be enforced, and the workers should be educated in safety-first ideas. Better and more wide-spread education, better health, greater discipline in fac-

tories, development of a permanent factory population and better conditions of work in the factories, will prove very useful in the prevention of accidents. First aid lectures and rescue demonstrations should be given periodically and notices should be put in conspicious places in a factory warning the workers against the dangers of machinery.

Housing:—The problem of housing is one of the most important for the industrial worker. If decent suitable living accommodation at reasonable rents within the means of the workers can be provided some of the most serious defects of India's industrial system can be removed. In all industrial centres congestion is so acute and rents are so high that the workers are compelled to live in tenements which are really unfit for human habitation. Most of the workers live in one-room tenements and often they share it with others. There is no privacy and therefore a large number of workers can not bring their families along with them. Not only because housing problem is difficult to be solved that the worker does not keep his family with him, his disinclination to bring his family with him is also due to lack of employment of women and restriction on the employment of children in the factories. This gives rise to a considerabe sex dispartity in Indian industrial centres resulting in a high incidence of vinereal diseases. There is all round testimony to the direct connection between congestion in the cities and the rapid spread of tuberculosis in recent years. In the interests of the better efficiency of the worker and of safeguarding not only in health but of the population as a whole, house building on a large scale in the cities should be regarded as an urgent necessity.

A few employers in almost every industrial centre have recognised to a certain extent their obligations towards workers and have built quarters which are rented out the to their workers. But even in regard to these cases only

a small minority of workers has been provided with housing accommodation. Below is given a brief description of appalling housing conditions found in our industrial centres and the efforts made by employers, improvement trusts and corporations.

Bombay:—The majority of workers in Bombay live in quarter known as chawls. Many of these chawls have tall narrow frontages and extreme depths with the result that the rooms in the middle and the ground floors are denied both sunshine and air, there is no proper arrangement for latrines. The narrow space of two to three feet between the back of two chawls is utilised for the purpose. The arrangement is so unsatisfactory that the air all-round is filled with an indescribable stench. Over and above this there is the common practice of throwing all the household rubbish and filth into the gullies. Much of it stagnates and with the liquid sinking into the soil when the drains are in a bad condition the condition becomes horrible. The whole atmosphere is polluted and poisoned. As the smell is unbearable and very strong the windows of the room opening on the gullies the only outlets to the open—are kept practically always shut where the lavatories are not detached from the main building of course nothing can keep out the stench.

Some years ago Dr. Barnes a lady doctor was appointed by the Government of Bombay to investigate the conditions of women workers in the city. In the course of her enquiry she visited many workers in their homes. She found many living in the ground floor or basement where the plinth was much below the road level and which in consequence must have been in a state of flood during the monsoon. She gives a graphic description of the eases of over-crowding that she encountered. As an example of a particularly bad state of affairs she describes a room size 15×12 ft. which was the home of six families. No less than 30 persons occupied the room. Each family

had its own cooking place. Three of the women were expecting to be delivered. Delivery would take place in a small space 3 ft. × 4 ft. screened off for the purpose. The effect of such conditions on these expectant mothers can easily be imagined Dr. Barnes states that she saw many such rooms answering to this description. This is why Bombay has the proud distinction of having the highest infant mortality rate in the world. Dr. Burnett Hurst in his enquiry into the housing conditions in Bombay has clearly established the connection between overcrowding and high death-rate among the workers and their children. According to enquiry the infant mortality among those who lived in one-room tenements was 82 p.c. in two-room tenements it was 32 p.c. in three-room tenements it was only 19 p.c. and in four-room tenements it was 13 p.c. only. It clearly proves that there is direct association between one-room tenements and high infant mortality.

Conditions in Bombay have not appreciably improved since Dr. Barnes has written her shocking report. The average number of occupants per room in one-roomed tenement, which for 81 per cent. of the total number was just over four. Thirty-three per cent. of the population live in rooms occupied by more than 5 persons at a time and 1 per cent. in rooms occupied by more than 20. In some wards of the city where the working classes predominate, conditions, were of course considerably worse. Many of the streets in Bombay are used during nights for sleeping purposes as indeed in many other cities like Madras and Calcutta because the average floor space available for each occupant of a single room tenements cannot be more than what could be covered by a small mat. With better housing, the night population on the pavements of the Indian cities may decrease.

In Bombay a housing scheme was attempted on a fairly large scale after the termination of the last war when the textile industry entered on a boom period. A

special cess was levied at the rate of a rupee per bale of cotton imported into Bombay the proceeds of which were utilised for providing housing accommodation for the workers. The full programme was for 50,000 tenements but only 16,000 were built most of them single-roomed. While the Bombay Improvement Trust built in addition 9,000 tenements. These improved tenements are provided with good light, ventilation, sanitary arrangements, water supply and roads. But they have been unpopular with the workers. The main reasons are the absence of cheap means of communication between them and the mills, protection against thieves, lack of medical facilities and the scarcity of shops. Gradually these improved tenements are becoming more popular as with the passage of time these shortcomings are disappearing.

It has been already mentioned that some employers' have provided housing in the form of single-room tenements. Though they are far better than chawls owned by private landlords but the general rule laid down by employers and sometimes put into practice is that the workers living in their quarters are liable to be turned out at 24 hours' notice on the declaration of a strike or a lock-out, and their movements even during normal times are carefully watched, particularly if they show their leanings towards a trade union.

Ahmedabad :—According to an enquiry conducted by the Bombay Labour Office three-fourths of the working class families live in one-roomed tenements. They are badly ventilated, insanitary, crowded, without adequate water supply and latrines. Frequently the open drains become choked and are allowed to remain so giving out a foul smell, and stagnant pools of water as well as heaps of decaying vegetables and rice full of flies are spread over the lanes and open spaces. Some of the cotton mills have provided housing accommodation to a minority of their workers, but its standard although better than

that of housing provided by private landlords is below the minimum standard requisite for health.

The housing conditions are better in Sholapur than in Bombay and Ahmedabad. 33 per cent. of the workers live in single-rooms, and 48 per cent. in two rooms though in these cases a closed verandah was counted as a room. All mills have provided housing for a portion of their workers, a large proportion of the housing being of a reasonable standard.

Madras :—In Madras as well the mill hands live in squalor and filth. There are nearly 200 slums in the city in which over 40,000 families or about a third of the city's population lives. The report of the Health Officer shows that average death-rate is highest in those wards where the labouring classes live.

The 'cheries' (as the slums are called) are a hopeless dwelling. The huts which are generally made of mud and thatch or of old kerosine tins are low hovels without any provision for light or air except a small door-way. In some 'cheries' the huts are built back to back or are separated only by narrowest alleys with the result that there is over-crowding of the worst kind. A second feature is the insufficiency of water supply, and a third characteristic is the filthy condition of the precincts of the 'cheries.' There is great scarcity of latrine accommodation and the drainage is extremely bad.

Cawnpore :—In Cawnpore a small number of the workers have quarters provided for them by the employers. So far nearly 3,000 tenements have been built by the employers providing accommodation for nearly 10,000 persons and the Improvement Trust has also built nearly 350 quarters. So that more than 150,000 persons live in dwellings which are unfit for human habitation. These workers live in 'Ahatas' belonging to private persons, they are very much over-crowded, insanitary, and filthy. Their

condition is shocking. Infant mortality in these areas exceeds 400 per 1,000 births and tuberculosis is widely prevalent in these 'Ahatas' because owing to the paucity of living quarters it is common for 2 or 3 or even four families to share a single room.

Calcutta :—In the jute mill area round Calcutta and across the Hooghly in Howrah, there are colonies built either by the employers or by the Sirdars called 'bustees.' Going through a 'bustee' is undoubtedly one of the most unpleasant experiences one can have in an industrial centre. The squalor, filth, and stench of these 'bustees' is not to be found in any other city of India. The mills have built a certain number of lines for their employees. There are over 40,000 quarters which accommodate nearly 120,000 workers. These quarters which are usually 10 feet by 8 feet are far better than the private 'bustees.' They consist of a single room with a verandah in the front. They are provided with proper drains and good ventilation. Some of them have septic tank latrines. But the majority of the workers live in dirty 'bustees' which are extremely filthy and disease-ridden hovels without any provision for water or light.

Coal mines :—Housing conditions are practically the same in coal mines and other mining areas. In collieries workers live in single-room tenements called 'Dhowrahs' generally 10 feet by 10 feet. The walls are naturally black with soot. The roofs leak during rains. Electric power is easily available in many of the collieries but it has not struck any one that adequate lighting of workers quarters might prove a welcome feature. Overcrowding in these 'Dhowrahs' is very common.

At Nagpur a praiseworthy effort was made by the Empress mills in conjunction with Y.M.C.A. and the Provincial Government. A plot of land about 200 acres of land at a distance of 2 miles from the mills was taken

on a long lease from the Provincial Government. The main point in the scheme for the erection of a model village was that each house would stand on its own ground with its own latrine and a water-tap. The scheme was worked on the basis of advancing money to the workers to be paid back in monthly instalments spread over seven years. The scheme when fully developed would have comprised 1,500 houses and the village would have its own play-grounds, market place, and public garden, a hospital and a workers institute. But unfortunately it was abandoned at an early stage, though a few quarters still remain standing as a reminder of that scheme.

In Jamshedpur the Tata Iron and Steel Company has built about 5,500 quarters with a little garden round each house. The workers are encouraged to build houses for themselves through loans advanced at 3 per cent. and repayable in monthly instalments. There are about 7,000 such small houses in 26 different sections of the city.

Another scheme which deserves notice is that of Ahmedabad Labour Associations housing scheme. 'The Association has built 2-roomed tenements out of the funds of the Association and rented out to members for reasonable rents. The Association has also enlisted the support of the municipality for a town plannng scheme which will provide suitable housing accommodation for large number of workers in the city.

The housing problem for industrial workers is of great national importance and it must be solved without further delay. There would be an enormous gain to the industry, through the attraction of better and more stable labour. The efficiency of the industrial worker will show marked improvement, and a well housed labour population will be an asset to the industries of India. But employers and the Provincial Governments so far have given little attention to this problem. The Congress

Ministries in 1937 showed active interest in the problem but their stay was so short that nothing could be done. It must be the duty of the employers to provide suitable housing accommodation to their workers. This should be considered a just charge on the industry and the Government should not allow the capitalist to pocket profits at the cost of neglecting their primary responsibility. Of course Government should encourage and help such employers who want to fulfil their responsibility by acquiring the land for the purpose, giving them loan at a reasonable interest and other facilities. The municipalities and corporations can also be of much help in making such schemes a success. Unfortunately in India the slum owners in industrial cities are very influential persons and the municipalities though possess the statutory powers to remove the slums but they are impotent because they are packed by these slum owners. What is wanted is a vigorous ministry embarking on a bold programme of house building.

Trade Union Movement:—Trade Union movement is the result of the modern factory system and the concentration of industry, which have dissolved the personal relations between employers and workers and degraded the workers so much that they became an easy prey to the exploitation of the employer. The unorganised workers of a factory have little bargaining power owing to their utter dependence, immobility, lack of reserve funds, and the perishability of their commodity *i.e.*, labour. By removing these handicaps trade unions strengthen their bargaining power, and secure for them higher wages and better conditions of work.

The labour movement may be said to have begun in 1875 when under the leadership Mr. S. S. Bengalee a Parsee philanthropist an agitation was started for drawing the attention of the Government towards the wretched conditions of the workers in textile factories, and to the need of

factory legislation. As the Factory Act of 1881 proved very inadequate the workers found it necessary to place their grievances before Government. The agitation was led by Mr. Narayan Meghjee Lokhande who started his career as a factory worker and devoted his whole life to the movement. In 1884 he organised the first conference of the workers in Bombay for representing their grievances to the Labour Commission which was appointed just before. In 1889 Mr. Lokhande got a petition signed by cotton mill hands and sent to to the Governor-General reiterating their grievances. This was followed by a mass meeting of over 10,000 factory workers in Bombay in April 1890 which sent a memorial to the Bombay Mill-owners Association requesting a weekly holiday which was granted. This led to the formation of the first Trade Union in India. Bombay Mill Hands' Association under the presidentship of Mr. Lokhande who also started the first labour journal called the 'Dinbandhu' the friend of the poor. The death of Mr. Bengalee and Mr. Lokhande deprived the movement of leadership but the seed did not die out and in 1910 the second labour organisation of Bombay factory workers called 'Kamgar Hitwardhak Sabha' *i.e.* Workers Welfare Association was established and a labour weekly 'Kamgar Samachar' was also started. The Association sent a memorial to the Government of India demanding the limitation of daily hours to 12 in a day and compensation for accidents. With the passing of the Factory Act of 1911 this phase of the labour movement came to an end.

The above Association were not trade-unions proper. The real beginning of the Trade Union Movement came in 1918 when Madras Labour Union consisting of the workers of the Buckingham and Carnatic Mills at Madras was organised by Mr. B.P. Wadia. During the next three years the movement spread rapidly all over India and in nearly all the industrial centres and im-

portant industries trade unions were organised. Several factors helped and stimulated the establishment of trade unions. Firstly during the war days while the cost of living went on rising to unprecedented heights wages were not raised to the same extent. The Capitalists were simply coining money and their profits were fabulous. On the contrary the condition of the labourers was miserable. This naturally produced discontentment and the strike committees formed during those days later on assumed the form of a trade union. Secondly the war which stirred the whole world also affected the Indian masses, and a new consciousness which was born among them produced a restlessness, discontentment from their existing lot and a spirit of defiance. The Bolshevic revolution and the establishment of peasant and labourers rule in Russia filled them with new ideals and aspirations. Thirdly the holding of International Labour Conferences every year gave the workers organisation the right to have a delegate recommended by them nominated by the Government of India, and lastly the political movement also promoted unionism by increasing the prevailing unrest and providing willing leaders.

Federation of trade unions also began fairly early. In 1920 the All-India Trade Union Congress came into existence, one of the main reasons which hastened the birth of an all-India body being the requirement of the International Labour Conference of Geneva that the workers delegation should be representative of the largest organisation of the country. Its object was laid down as co-ordination of activities of all labour organisations in all trades and in all the provinces in India, and the furtherance of the interests of Indian labour in matters economic, social, political.

Trade Union Act of 1926:—At an early stage the the movement was threatened with penalties to which

in the absence of a protecting statute trade unions were exposed in India. Following a suit against Mr. B. P. Wadia and other leaders of the Madras Labour Union in 1920 and the High Courts ruling thereupon led to an agitation for a trade union act both in India and England. At that time a strike meant withdrawal of labour which further implied a breach of contract of service. It was in 1926 that the Trade Union Act was passed and came in force from 1st May, 1927.

The Indian Trade Union Act is designed to meet the comparatively simple needs of a young movement. The main provisions of the act are as follows:—(1) It gives immunity to registered trade unions from civil and criminal liability. (2) The accounts of the registered Trade Unions are to be audited every year under rules made by Government regarding the appointment of auditors. (3) The general funds of a registered trade union can among other specified objects be utilised for the conduct of trade disputes on behalf of the trade union. The funds can also be spent on any cause intended to benefit workmen in general. (4) No less than one-half of the total officials of a registered union shall be persons actually engaged in an industry with which the trade union is concerned. This clause clearly recognised the need of outsiders to help trade unions. (5) The trade-union can have a political fund but contribution to that fund was not to be a condition for admission to the union.

Under this act every Provincial Government has appointed a Registrar of Trade Unions who registers a trade union. The registered trade unions are required to keep regular accounts and proper books, get them audited, and to send regular statements to the Registrar of Trade Unions.

The registration of a trade union is not compulsory and although there is an increasing resort to it several

unions regard the privileges thus acquired as extremely inadequate returns for the obligations imposed under the law. Since employers regard themselves in no way bound to recognise a union even registered much of the point of registration is missed. But after 1935 there has been a growing tendency towards registration on account of Trade Unions being made a labour constituency in important industrial centres.

Since the passing of the Act the trade union movement has developed more rapidly and though it is difficult to give a correct number of trade union members, an estimate of 350,000 as the total membership of the movement is not wide of the mark. The task of organising labourers was much easier in big industrial centres. There has been no labour organisation in tea plantation-workers, because of their inaccessibility. Even among the miners the difficulty of building up unions have been great. But jute, cotton textiles, and among the railways, the labour movement has been very vigorous.

Besides the All-India Trades Union Congress the railway unions federated themselves into All-India Railwaymen's Federation. Railwaymen's Federation is one of the strongest organisations in the country at present. The Railway Board has recognised the Federation and six monthly meetings are arranged between the representatives of the Railway Federation and the Railway Board to discuss and if possible to settle outstanding questions in regard to the conditions of service of railway workers. Textile unions also have their own all-India organisation.

From onward 1924 militant tendencies developed in the movement with the introduction of communist propaganda. Employers in Bombay and the Agents of railways refused to listen to ordinary trade unions and did not pay much attention to their requests. But showed a disposition to yield only when communist influences

had gained considerable ground among the workers. This naturally gave a great encouragement to the communist workers. Gradually the Communists secured a great hold on the minds of the workers in Bombay. Encouraged by this success they extended their activities to Bengal and established a propaganda centre at Calcutta. Now they appeared as a separate group at the All-India Trades Union Congress Sessions held at Cawnpore and Jherria. In 1929 December at the Nagpur session of All-India Trade Union Congress held under the presidentship of Pandit Jawahar Lal Nehru, the final trial between the communist leaders and the leaders of the unions working on the constitutional lines was held. Communists placed a series of resolutions before the Executive Committee for adoption in open session. These resolutions related to the boycott of the Royal Commission on Labour, and of the annual International Labour Conference at Geneva, affiliation of the Congress to the Pan-Pacific Secretariat at San-Francisco, and the Third-International at Moscow. When these resolutions were adopted by the majority the reformist labour leaders decided to withdraw themselves from the Congress and start a new organisation under the name of the All-India Trades Union Federation. The railway unions through their federation kept aloof from both the organisations. But efforts were made by the Railwaymen's Federation to bring about unity in the workers movement. In 1932 All-India Trades Union Federation was dissolved and a new body was brought into existence under the name of the National Trades Union Federation claiming the adherence of the first body dissolved and the railway unions. A position of stalemate continued for some years as regards unity among labour rank. Till at last in April, 1938 at Nagpur National Trades Union Federation and the Trades Union Congress came to terms and the Federation merged itself into the Congress.

The All-India Trades Union Congress represents once again all the workers organisations in the country. The conditions of amalgamation are that the Congress will not seek affiliation to any foreign organisation though affiliated unions are permitted this liberty. With regard to political questions and the declaration of strikes the decisions will be conditional upon the support of three-fourth's majority.

During wartime under the leadership of Mr. M. N. Roy an organisation called 'Indian Labour Federation' has been st rted with Government help.

No account of the Trade Union movement will be complete without special mention of the Textile Labour Association at Ahmedabad the strongest single organisation of the workers in India. The Association is a federation of craft unions. There are 7 craftwise organisations namely the throstle workers, frame card blow-workers, weavers, engine machine operatives, jobbers and mukadams, winders, and warpers. Each union has its own Executive Committee while there is a central executive as well as an Advisory Committee also, permanent committees of representatives to supervise the different activities of the Association, and a joint Board of representatives to look after the interests of all the workers in the industry in Ahmedabad. The present membership of the Association is about 25,000.

The Association takes up individual complaints and gets them settled in favour of the workers. It takes up the cases of workmen compensation and secures compensation for the workers. It maintains a well furnished hospital with a maternity ward attached to it. It runs nearly 32 schools for the workers' children. It runs four social centres in the city, maintains reading rooms and libraries and physical culture centres, and pays victimisation benefits to those who are dismissed by the employers for carrying on Associations work in the factories. The

Association provides legal aid to members. It has constructed two-room tenements which are let out to the members at reasonable rents. It is contemplating to give unemployment benefits as well.

Though the Trade Union Movement has grown yet it is not very strong and powerful. The following are some of the causes of its weakness.

(1) The Factory development in India is of a recent growth and therefore the movement is still in infancy.

(2) The Indian mill-hand does not intend to stay in the industrial centre permanently and therefore he is not an enthusiastic trade unionist of the genuine type because he might be away in his village after some years.

(3) The worker is so poor that he cannot afford to pay even a slight contribution towards the trade union funds.

(4) The worker being illiterate does not fully understand the true significance and necessity of the Trade Union movement.

(5) The industrial population in India is a hetrogenous one. The workers cross language boundaries and in most cases their religion, their traditions, and mode of living is much different.

(6) The industrial centres in India are scattered over the whole length and breadth of the country and there are no Consolidated Zones of industrial growth. The great distance between the different centres puts obstacles in the growth of a very strong labour movement.

(7) Lack of genuine and capable labour leaders. In some cases strong unions are disintegrated owing to the zealously of the labour leaders.

(8) The Government of India has been very suspicious of the labour movement because of its strong poli-

tical colour and its being dominated by communists. Now the Government of India has set up a new Labour Organisation under the leadership of Mr. M. N. Roy.

(9) Friction in the All-India Trade Union Congress which divested the movement of proper co-ordination and guidance. Though now again unity has been restored. Yet the new rival organisation Indian Labour Federation is undermining its unity.

(10) Employers hostile attitude towards the trade unions and universal complaint of victimisation of Trade Union workers.

(11) Lastly the recent tendency towards organisation of labourers on communal basis. Fortunately it is a rare phenomenon at present but if it is allowed to grow this will result in the decay of the movement.

The trade unions in India are of three kinds, (1) Bogus (2) Strike committees, (3) and permanent trade unions. On account of the privilege given to trade unions to elect representatives to Provincial Assemblies and other bodies, certain ambitious persons organised trade unions which are fictitious. The purpose of such unions is to give a platform and name to the office-bearers. Happily such unions are very few. The second type of trade unions are not permanent trade unions but they are ad-hoc unions that is organisations designed to secure some definite and immediate object. The most common form is the strike committee formed to carry on strike and sometimes charged with the responsibility of formulating demands after the strike has begun. With the end of the dispute particularly if the workers are unsuccessful, the union either disappears or sleeps. Unions of this type are frequently able to claim a very large membership.

The third type of trade unions are permanent and happily their number is increasing the transport and Post and Telegraph are very well organised. Among indus-

tries Textile is the best organised. In coal mines and plantations labour is not at all organised and if their are certain trade unions of coal-miners they are very weak and inaffective. There is no trade union movement worth the name in seasonal industries.

Industrial disputes and the machinery for conciliation :—Strikes on a small scale occurred in factories in India during the early development of modern industries, but there is hardly any record of them. Before the first great war however strikes were infrequent as there was no organisation among workers and their out look was altogether passive. All strikes in this early period (before 1914) were spasmodic and some local philanthropist used to champion the cause of labourers.

This state of affairs continued upto 1914 when the outbreak of war changed the entire situation. The great war which stirred the whole world affected also the masses of India who had to bear the burden of recruitment loans, taxes, and war contributions. When the workers returned from war theatres in 1919 they brought with them revolutionary ideas. Moreover the powerful Nationalist movement and the repressive policy of the Government aroused a spirit of defiance among the people and lastly the establishment of Russian Republic of peasants and labourers awakened a hope of a new social order among the labourers.

With the social mind surcharged with war spirit, political agitation and revolutionary ideal the labouring classes no longer remained patient and tolerant under the old social wrong and new economic disabilities. Unionism gave them a new weapon.

The spirit of revolt has been latent for sometime but it was manifest only in the latter part of 1919. Under this spirit workers started strikes after strikes until like an epidemic they spread all over the country paralysing

the whole industrial organisation. The employers policy was short-sighted throughout, they generally allowed the grievances to accumulate and attended to them after the outbreak of strike. In 1920 nearly 200 strikes some of them of a serious character took place. The most notable of these were the general strike of Bombay which caused a tremendous loss, the general spinners strike in Ahmedabad, and general strikes in Bharoach and Sholapur. The strikers wanted increase in wages and shorter working day which was granted to them.

In 1921 there were nearly 400 strikes a number which has never been equalled in India involving six lakh workers and an aggregate loss of seven million working days. The largest number of strikes occurred in Bengal and Bombay. Madras and U.P. being other areas affected and a disastrous one in Plantations where firing was resorted to. In the three subsequent years there was on the whole less industrial unrest. In 1923 the cost of living fell and a period began of efforts by employers to reduce wages and withdraw concessions made in earlier years. This led to trouble and there were 213 strikes involving 3 lakh workers and a loss of 5 million working days. Mostly these strikes occurred in Bombay. The most serious strike was at Ahmedabad affecting 56 out of 61 mills involving 45,000 workers and a loss of two and half million working days. In 1924 there was a general strike in Bombay over the question of Bonus.

Between 1921 and 1926 there were over 1,200 strikes in India involving nearly 2 million workers and causing a loss of 37 million working days. Of these strikes 500 occurred in Textiles, 150 in jute and 59 in railways. The years 1926 and 1927 were comparatively quiet.

In 1928 there was a fresh wave of unrest sweeping over the country. there were 200 strikes only but the loss in working days reached a record figure of 31 million and a

half. The textile workers in Bombay declared a general strike as a protest against the introduction of a scheme of rationalisation of work. The strike continued over 6 months. It was responsible for a loss of over 22 million working days. The Bombay Government appointed Fawcett Committee which held the 17 demands of the workers fair and reasonable. Unrest was general during the year resulting strikes at Jamshedpur, Cawnpore and Sholapur.

After 1928 there was a considerable decline in disputes. Following were the reasons of this decline. (1) Natural lethargy after prolonged strikes and their failure, (2) Split in the All-India Trade Union Congress (3) The appointment of the Royal Commission on Labour, (4) Meerut conspiracy case in which most of the left-wing labour leaders were involved, (5) Serious political condition and civil disobedience movement which stiffened the attitude of Government towards labourers, (6) Serious economic depression which paralysed the Indian economic system.

In fact during these years trade union movement suffered a severe set-back and with the deepening of the economic depression came further attacks on the standard of workers which they were powerless to resist. Unemployment was acute and in almost all mills wages were reduced.

In 1929 the Government of India passed the Trade Disputes Act. But the Provincial Governments did not set up courts of enquiry and arbitration boards to settle the trades disputes. They had greater faith in policeman's lathi and prohibitory sections of the criminal procedure code to suppress strikes.

Trades Disputes Act, 1929 :—The Act empowers the Provincial Governments or the Central Government to refer any matters connected with a dispute existing or apprehended to a court of enquiry or a board

of conciliation: If the majority of each of the parties so desire it, the Government may appoint a court of enquiry or Board of conciliation whichever is desired. The court may issue the report. The Board consisting of equal number of representatives of both the parties is intended to bring about a settlement as early as possible. If a settlement is arrived at the Board must send to the proper authorities a copy of the settlement signed by the parties and a report of the activities of the Board. Even if no agreement is arrived at a report must be sent by the Board along with their recommendations for bringing the dispute to a settlement. The Courts and Boards under the Act are invested with all powers of civil courts for enforcing attendance of persons, their examination on oath, for compelling the production of all documents etc.

The Act makes special provision in regard to Public utility services, specially railways. It penalises strikes and lock-out without 14 days previous notice, when the strike is in breach of a definite contract between workmen and employer. A strike or lock-out is illegal if it is not concerned with a dispute within the industry or if it is designed to cause prolonged public hardship or to coerce the Government.

Legislation for settling disputes has not had success, because the Act of 1929 provided for intervention only at a last stage when the dispute is at its climax and settlement has already become difficult.

Comparative quiet in the labour world during the period 1929 to 1936 was due to causes stated above. With the advent of the Congress Governments in the Provinces who were pledged to safeguard the interests of the labourers, the hopes of the workers revived and comparative prosperity of the industries improved the prospects of successful strikes, and the labour unity was secured by a compromise arrived at the Trade Union Congress between the left and right wing of the movement.

The election manifesto of the National Congress on the fundamental rights ran thus "The state shall safeguard the interests of the industrial workers that the labour policy of the National Congress was to secure a decent standard of living, hours of work and conditions of labourers in conformity as far as the economic conditions of the country permit, with industrial standards with suitable machinery for the settlement of industrial disputes, protection against the economic consequences of old age, sickness and unemployment, and the right of the workers to form unions to strike for protection of their interest." Thus the Victory of the Congress at the polls roused a great expectation in the minds of the labourers.

Beforehand in 1934 the Bombay Government passed the Conciliation Act by which provision was made for the appointment of a chief conciliator whose duty was to put the two parties together. A labour officer was also appointed under the Act to watch the interests of the workers with a view to promote harmonious relations between the employers and the employees and to take steps to represent the grievances of workmen to employers for the purpose of obtaining redress. The U.P. Government also appointed a labour officer at Cawnpore for the same purpose in 1938. The labour officers got a large number of grievances redressed which would otherwise have led to serious conflicts.

So far conciliation had been voluntary. It was felt that conciliation to be successful must imply the existence of good will. The Royal Commission on labour were also against the introduction of the principle of compulsion by making obligatory the reference of disputes to arbitration. The trend of opinion shifted with the coming of popular Governments and compulsion was proposed everywhere. From this point of view the Bombay Trades Disputes Act of 1938 is of great importance.

CHAPTER XIX

Bombay Trades Disputes Act 1938:—The Act lays down that no reduction in wages or other conditions in employment to the disadvantage of the workers can take effect till proper notice is given and sufficient time and opportunity are allowed for the facts to be examined through the channel of negotiation, conciliation, or arbitration. If an agreement is not reached between the parties during the period of notice, then the difference will have to be compulsorily communicated to the conciliator who will try to bring about conciliation. There will be one conciliator for each area. If the conciliator fails to bring about a settlement he, will make a report to the Provincial Government. The Government may if they like, and must at the parties request appoint a Conciliation Board which should try to bring a settlement within the period of two months. Until the whole of this machinery completes its round no strike and lock-out is to be allowed. Arbitration where both parties so desire is also provided for and an Industrial court is set up not only to deal with all disputes referred to it but also to serve as an appellant authority from the order of the Registrar of Trade Unions and the decisions of the chief conciliator. All strikes and lock-outs are illegal which take place during the pendency of conciliation or arbitration or without notice to the parties concerned. Strikes are also illegal if they are in violation of agreements which have been registered by the parties and during the pendency of such agreement.

In order to facilitate the procedure for compulsory conciliation a scheme of registering trade unions has been set up. There will be three kinds of trade unions which will be registered. The recognised unions, the qualified unions, and the representative unions. Where in any local centre there is no registered trade union the workers are allowed to choose five representatives from among themselves to represent their case. The Act follows the prin-

ciple that only one union shall be registered from one local area. It is open to the union with a larger membership to get the registration of the smaller union cancelled.

The basic idea of the Act has been the introduction of collective bargaining between the whole body of employers in a local centre and the whole groups of organised workers in that area. The value of settlement within the single industrial unit has been ignored. The Act does not propose to set up work councils in each factory which should be the first agency to receive all notices of change in the factory. The question of compulsory postponement of strikes unless all the stages of conciliation or arbitration are gone through raises another issue of importance and does not find favour with labourers. The view that only one union should be allowed to represent workers in a local centre is to be deplored because it implies the regimentation of workers in a single union.

Stable peace can only come about if there be harmony and goodwill within the industry. The establishment of work council in each factory composed of representatives of workers and of management which will deal with all questions effecting the workers will be very useful. Above all industrial peace depends upon the development of sound and stable unions which will negotiate with the employers in all local centres. It is this absence of internal arrangement that is responsible for the breaking of lightning strikes in India.

ECONOMIC CONDITION OF LABOURERS

Wages :—The problem of paying reasonable wages is of utmost importance from the point of the labourers. In Indian industries not only that wages paid are very low but there is a very great variation in wage rates in the different centres in the same industry. Not only that wages differ in different centres but they also differ in the same centre and the same industry to a surprisingly great extent. Thus in Bombay and Calcutta the two most important indus-

trial centres of India in the adjoining two factories the wages may be quite different. Repeated efforts have been made by the trade unions to get the wages standardised but nothing so far has been done. The present wage problem in India is to secure sufficient wage for the worker and to get the wages standardised in different centres. Not only that the wages paid by the factory owners in India are very low but they also resorted to unnecessary and heavy fines and cuts and vexatious delay occurred in paying wages. This difficulty has been removed to some extent by the passing of the Wage-Payment act in 1937. The main provisions of the Act are following:—(1) The wages of all persons employed in concerns employing less than 1,000 persons are to be paid before the expiry of the seventh day after the last day of the wage period in respect of which the wages are payable, and in establishments employing more than 1,000 persons before the expiry of 10 days. Where the employment is terminated by the employer all due wages are required to be paid before the expiry of the second working day following that on which the employment is terminated. (2) Deductions from wages are permitted only in respect of fines, absence from duty, damage or loss of goods, housing accommodation supplied by the employer, contributions towards provident fund, for dues of co-operative societies and on orders made by the court. Deductions are also permitted in respect of such amenities supplied by the employer as the Governor-General or Local Government may authorise. (3) No fines are to be levied on children that is persons below the age of 15. No fines can be imposed save in case of such acts or omissions as have been exhibited in notices which have received the approval of Local Government. The total amount of fines which may be imposed on any person during any wage-period is not to exceed half an anna in the rupee of wages for that wage period and no fine can be recovered in instalments or after the expiry of 60

days from the day on which it was imposed. All fines are to be recorded in the prescribed registers and all realisations from fines are to be expended on objects beneficial to the workers. (4) Deductions from wages for periods of absence from duty should be pro-rata and should not bear a larger proportion than the period of absence bears to the period of duty. (5) Recovery of an advance of money given before employment began is to be made from the first payment of wages in respect for a complete wage period. But no recovery is to be made for advances given for travelling expenses.

Need of minimum wage legislation in India :— The wages in India are extremely low, no body can question. The wage statistics of different industrial centres prove it. But the granting of minimum wages is not called for only because the wages are very low, but also because there does not exist any arrangement for effective regulation of wages by the collective agreements or otherwise. There are no strong trade unions to resist the arbitrary reduction in wages. Moreover in India due to the growing pressure of population on land there is an ever-growing reserve available at the factory gates for any wages. This over abundance of labour supply compelled with one-sided competition leads to a race in reduction of costs by deduction in wages. Minimum wage legislation is not only urgent from the point of view of the well being of the working classes but it will also ensure that mutual good-will and trust between worker and the employer that can alone bring about peace in industries.

In India the demand for a legal minimum wage was made before the Royal Commission on labour. But they rejected the demand on the ground that in India wages in agriculture are very low and as industries draw their labour from villages they cannot be said to cause lowering down the standard of living of the worker. In short

labour commission summarily dismissed the demand of the worker for a living wage as long as the agriculture wages remained below the industrial wage.

Fortunately the view did not hold the field long. The Cawnpore Labour Inquiry Committee appointed by the United Provinces Government advocated the establishment of minimum wages in the following words. "The principle of the minimum wage simply stated is to guarantee the worker a living wage compared with this criterion industrial wages are decidedly exceptionally low." In 1940 the Bombay Textile Labour Enquiry Committee also studied the question more minutely and recommended the fixation of minimum wages by law. The committee recommended that a Trade Board should be set up for the cotton textile industry in the province of Bombay to fix minimum wages for the industry. The Bihar Labour Enquiry Committee also recommended that minimum wage should be fixed at the following rates: Jamshedpur Rs. 18, collieries Rs. 20, for miners Rs. 15, for loaders, Rs. 13 for other workers in collieries Rs. 13, for sugar factories and Rs. 12 for other factories. A notable event during 1939 was a resolution passed by the Bombay Corporation to pay Rs. 25 exclusive of benefits such as house allowance etc. to all permanent male municipal employees. The All-India Spinners Association under the guidance of Mahatma Gandhi was the first to adopt in practice the principle of minimum wage 8 annas per day for 8 hours work.

The resignation of Congress ministeries and the outbreak of war removed the possibility of these recommendations being put into practice at least for some years.

Expenditure :—The workers spends a certain amount on his necessities, food, clothing and house rent. Then he has to pay to the money-lender. Drink and drugs absorb a large portion of his earnings. Amusements take the

form of occasional visit to cinema houses or to festivals, but comparatively few can afford them and very few spend anything on their children's education.

When the villager first arrives in the city his resources are even more limited than those of the rural cultivator. He mostly borrows money for the initial bribe and the expenses of the first six weeks during which he will be paid no wages by the employer. The rate of interest he has to pay is higher in cities than in rural areas because the security of the labourer is practically nothing. The money-lender in the town has a small shop near industrial areas. He is either a Marwari or a Pathan. The rates vary from 25 per cent. to 150 per cent. As far as Pathan is concerned he charges on small sums 150 per cent. and on bigger amounts like Rs. 50 or Rs. 100, 75 per cent. In the industrial areas apart from the Marwari and the Pathan; very frequently the mistri or the jobber also follow money-lending as a profession. Initial bribe, for purchasing a job, maintenance during the first one and a half month, marriages, ceremonies, and funerals are responsible for a large proportion of debt.

It would be no exaggeration to say that overwhelming majority of the workers in India are hopelessly in debt. Sickness in the family, unemployment, drink and drugs are all contributory factors of indebtedness.

So far as industrial labour is concerned the Royal Commission on Labour discussed their particular needs from more than one point of view. On the recommendation of the Commission the Government of India amended the law in 1937 exempting altogether the salaries of workers getting not more than Rs. 100 a month and in the case of Government servants, local bodies, and railway administrations getting more than Rs. 100 a month, from any attachment of the first Rs. 100 and only half of the remainder. By another amendment of law in 1936 the

imprisonment of the debtor is not permissible. Another aspect of indebtedness is the intimidation and molestation by the money-lenders. The Provincial Governments have passed measures according to which loitering near any factory mine, dock or railway workshop for the purpose of recovery of debt is punishable with imprisonment. The Labour Commission also recommended that steps should be taken to help the worker to liquidate his debt and legal protection should be granted to him. But nothing has been done so far. The indebtedness of the worker is a great curse and he becomes a long slave of his creditor.

Another big item in a worker's budget is expenditure on drink and drugs. Liquor consumption in industrial areas is shockingly enormous. The Congress Government adopted the policy of limited prohibition but after their resignation it was abandoned. It is absolutely necessary that prohibition should be introduced at least in industrial areas and healthy recreations must be provided to the working population so that the drinking habit may be changed.

In the case of the majority of low paid workers the bulk of their incomes go to the creditor as interest, to the drink or to drug shops, and for ceremonies. Most of what remains is spent on food, clothing, fuel and rent. The average labourer consumes less cereals and pulses etc., than even the prisoner. His standard of living is extremely low. Under these circumstances he cannot be but inefficient.

LABOUR LEGISLATION.

Mines Act of 1935 :—According to this act no person is to be employed in a mine for more than six days in a week. No person employed above ground in a mine is permitted to work for more than 54 hours in any week or for more than 10 hours in a day. The period of work of a person employed below ground in a mine are to be reckoned from the time he leaves the surface to the time he returns to the surface and are not in any one day to spread

over more than 9 hours. The employment in any mine of children under 15 years of age is prohibited.

The Government of India promulgated regulations in 1929 prohibiting the employment of women underground in coal mines of Bengal, Bihar, C.P., Orissa, and salt mines in Punjab with effect from 1st July, 1939, and in all other mines from 1st July, 1929. But during war on account of coal shortage women have been again allowed to work underground as a temporary measure.

Factory Act of 1934 :—The recommendations of the Royal Commission on Labour were incorporated in the Factory Act of 1934. The following are the main provisions :—(1) Any premises where a manufacturing process is carried on with or without power and ten or more workers are employed will be declared a factory. (2) Every factory shall be kept clean and free from effluvia arising from any drain, privy or other nuisance and shall be cleansed properly. (3) Where gas dust or other impurity is generated in the course of work adequate measures shall be taken to prevent injury to health of workers. (4) The local Government may make rule (*a*) prescribing standards for cooling properties of the air in factories in which the humidity of the air is artificially increased. (5) Overcrowding shall be avoided in the rooms of the factory. (6) A factory shall be sufficiently lighted all the working hours. (7) Dangerous machinery will have to be fenced. (8) No adult shall work for more than 54 hours a week or where the factroy is a seasonal more than 60 hours a week. (8) Sunday will be a holiday. (9) No woman shall be allowed to work in a factory at night. (10) Child below the age of 12 will not be allowed to work in a factory and even those who are of the prescribed age shall not work unless they are given a certificate of physical fitness. (11) No child shall work for more than 5 hours in any day. Children will not be made to work at night. From 12 to 15 years the worker will be considered child

and half timer. (12) The building of the factory must be suitable for the manufacturing process. (12) In case of overwork the worker will be entitled to pay at the rate of one and a half times his ordinary rate of pay.

The present factory act is a great improvement over the previous one as regards the safeguards and the hours of work but the workers long for 48 hours of work and greater safeguards for themselves. During war by special ordinance in certain industries 60 hours week has been permitted by the Government of India as a temporary measure.

Workmen's Compensation Act, 1934:—The findings of the Royal Commission on Labour were incorporated in the Workmen's Act of 1934. The scope of the act has been widened covering labourers in nearly all hazardous occupations. Substantial changes have been made in the scale of compensation. For fatal accidents the compensation ranges between Rs. 500 to Rs. 4000 according to the wage of the employees. In the case of permanent disablement the compensation ranges between Rs. 700 to Rs. 5,600 according to the wages of the employee. Some industrial diseases were recognised the sufferers from which were made entitled to compensation.

Maternity Benefit Act:—Until 1929 Maternity Benefits were unknown in India. In that year Bombay Government passed the Maternity Benefits Act. According to the Act any pregnant women worker who has put in 9 months service can claim 8 weeks wage four weeks before and 4 weeks after the delivery. C. P., Madras, U.P., Assam tea plantations, and centrally administered Areas Maternity Benefits Acts have been passed more or less on the same lines.

Unprotected Labour :—When the condition of labourers in regulated factories liable to periodical inspection are unsatisfactory the conditions are much less satisfactoy in small and seasonal factories which are less

liable to inspection. Under the latter category come sugar, cotton ginning and pressing, tea, jute pressing, rice husking etc. the workers are primarily agriculturists living mostly in their village homes. There is no organisation among these workers, their wages are extremely low. The seasonal factories can obtain certain exemptions as regards hours of work etc. from some provisions of the Factory Acts.

The question of dust is an important one specially in cotton presses and gins, tea factories, and rice mills. Many of the ginning sheds are very hot in the summer being covered with corrugated iron sheets. Owing to the dust nuisance respiratory diseases are very common in these areas. In the tea factories the atmosphere is impregnated with tea fluff and the labourers have to work with a cloth round the mouth and nostrils.

Then there are all kinds of small factories which employ the majority of the workers in India. They do not come under the factories act either because they do not employ power or because the number of workers employed is less than 10 or twenty.

There is also the problem of the unregulated industries chiefly tanning, beedi making, carpet manufacture etc. The conditions of work are appalling and very insanitary conditions prevail where the work has to be done in tanneries. In Beedi and carpet manufacturing children of very low age have to work for long hours. In mica splitting, and wool cleaning also children of tender age are made to work long hours. More or less similar conditions exist in shellac manufacturing. The workers in these non-regulated factories are the least protected of the industrial workers in India. No act has been passed to give them protection.

Welfare work:—The labour legislations give protection only to a minority of the industrial workers and even for them, their poverty and ignorance and the power of employers are factors which minimise the effectiveness

of such legislations to a considerable extent. In fact there are some gaps to be filled in the labour legislation. It is of utmost urgency that provision for sickness, old age, unemployment and invalidity be made and the hours of work may be reduced from 9 to 8 per day and 40 hours week may be kept as ideal. Legislation for fixing a minimum living wage for all industries regulated and unregulated, abolition of child labour under the age of 15 and legislation for the protection and general improvement of the conditions of work and life of workers should be taken up at an early date.

Certain philanthropic employers spend a substantial sum every year on welfare acfivity in their factories, medical relief, education, recreation, cheap grain shops, dining sheds. Creches for children, etc. are provided at the cost of the employers. But such cases are few and even in the case of such factories much is made of welfare work. It is a delusion and snare in many cases. In some cases welfare work have for the time being made the creation of trade unions impossible just where they are most needed. Welfare work has its uses provided it is completely controlled by the labourers themselves, is made applicable to the whole industry and does not check the growth of trade unions. Until employers in India abandon their hostility to unions it is impossible to expect workers appreciation for welfare schemes and conducted (as it is claimed) for their good, but in running of which they have no voice.

In fact the industries should provide a reasonable wage, decent conditions of living and work to the labourers. Therefore the State should fix a minimum wage in every industry by legislation and a decent standard of welfare work should also be provided by the capitalists to their workmen. It is only thus that comparative peace can be maintained in the industries without which the industries in India cannot grow rapidly.

CHAPTER XX.

MODERN INDUSTRIES.

One of the important developments in the economic life of the country during the past hundred years or so has been the establishment of mechanised large scale industries. It is a fact that this development has not proceeded on satisfactory lines, and there is much that remains to be done in this connection. We have already discussed the problems of our industrial development in a previous chapter. In the present chapter we shall make an attempt to review the position of large-scale industries existing in the country.

Cotton mill industry:—We have already seen that cotton manufacturers of India had attained a world-wide celebrity in the past and it was as a result of the working of a number of adverse circumstances that this premier industry of the country along with other indigenous industries decayed. But the inherent advantages that India possessed in relation to cotton industry with her skilled as well as cheap labour, large markets, and an enormous amount of raw cotton, were there. And it was only a question of time for the industry to revive itself on modern and scientific lines. To-day cotton-mill industry occupies a front position amongst the organised industries of the country.

It may be interesting to learn that the first factory run on modern lines in the cotton industry of India was established not at Bombay but at Calcutta by an Englishman with English capital in 1818. The venture, however, failed and it was in 1854 that a Parsee gentleman, Cowasji Nanabhoy Dawar, started a spinning mill at Bombay and thus successfully laid the foundations of cotton mill industry in India. Since then the industry has remained under

Indian control and been financed by Indian capital which has entitled it to claim itself as a really national industry of the country.

In the beginning the progress of the industry was slow. The speculative boom of the sixties of the last century as a result of the American Civil war opened the flood gates of a large number of company floatations in India in which the new money made in the cotton boom was invested and the cotton industry also had its share. The industry made somewhat rapid progress in the seventies, and in 1878 there were in all 53 mills. The important features of the industry of this period were: predominance of spinning over weaving, localization of industry in the city and Island of Bombay, and its dependence on the export of yarn to the Chinese market to the neglect of the home market. Abundance of capital and credit facilities, cheap and speedy transport, and nearness to Chinese market were the factors that localised the industry in Bombay.

During the last quarter of the 19th century (1878-1900) the progress of the industry continued in spite of a number of difficulties that came in its way. The cotton industry of England had been a harbinger of industrial revolution in the fields of other industries and a similar development was most natural in India as well. The Manshester and Lancashire interests were anxious to keep India only a raw material producing country. They became jealous of the new cotton industry of India, and an organised campaign was engineered against it. This had its effect. First there come about the gradual removal of import duties on cotton goods, and when such duties had to be re-imposed for revenue purposes they were accompanied by the imposition of an excise duty on home produce so as not to give them any advantage over the British manufactures. In 1894 the import and the excise duties were levied at a rate of 5% which were reduced

to 3½% in 1896. Though the import duty was raised from time to time later on, the excise duty, which was applicable only on finer products of over 20 counts only, continued at the same level till it was abolished in 1926. This cotton excise duty was much resented by all nationalist interests and affected the development of industry in an adverse manner. Another difficulty that the industry faced during this period was of exchange. As a result of closing the Indian units to the coinage of rupees in 1893, the Indian currency was linked to gold and her relations with the Chinese currency, which was based on silver standard, became unstable in consequence. The Exchange rate between China and India suddenly dropped from $100 to Rs. 200 to $100 to Rs. 192 in 1893 which brought about a great fall in our exports yarn to China. There were certain other factors also, as the beginning of a cotton industry both in China and Japan which not only affected our foreign markets for yarn but in course of time produced the Japanese competition within our own home market also. The occurrence of two famines and the outbreak of plagues in the latter years of the last century reduced the home demand and adversely affected the supply of labour for the industry, specially the plague drove away a large number of workers from the Bombay mills. Still the industry made great progress, the number of mills rising to 193 in 1900, looms to 40,000 (11,000 in 1878) and spindles to 4,696,000 (1,290,000 in 1878). This did demonstrate the inherent strength of the industry.

A new development in the industry in this period was the starting of factories in a larger and larger number not only in other parts of the Bombay Presidency excepting Bombay such as Ahmedabad (the first mill was erected in 1859 but the progress was rapid only in the last two decades of the century), Sholapur, Surat, Baroda but also outside the Presidency in such up country towns as Nagpur and Cawnpore. The expansion of the industry

in these new centres was influenced by such natural factors as nearness to raw-material, plentiful labour, marketing facilities, and development of railway communication. The other two features of the industry, *i.e.*, predominance of spinning and export of yarn to China, however, continued as before.

"The effects of the unfortunate events at the end of the last century gradually disappeared and the industry once again entered on its onward march from 1903." The Swadeshi movement of 1905 gave a further impetus to the industry which, in spite of certain unfavourable circumstances as general depression in world's cotton trade in 1907 resulting in a fall in the price of yarn and difficulties of trade with the silver using countries like China and Japan due to increase in the duty on the imports of the white metal in 1911, however, continued in a prosperous condition till the outbreak of the last world-war. In 1913 the number of mills had risen to 271, of spindles to 6,779,000 and of looms to 1,04,000.

During this period (1900-1914) the industry displayed a few new features also. The predominance of spinning waned and weaving made relatively greater progress. This was because the growth of spinning industry in China reduced the Chinese demand for our yarn on one hand, and the Swadeshi movement produced an increased demand for Indian goods on the other. Another development was the production of finer counts of yarn, and the expansion of industry outside Bombay continued with greater vigour. The passing of Factory Legislation in British India in 1911 also led to the establishment of a number of mills in Indian states which tendency has since been on the increase. In the absence of any such labour protecting legislation in Indian states, capitalists have got full opportunity to let loose their passion for exploitation of the working class.

The position underwent a somewhat better change as the result of the breaking out of a world-war in 1914. The increased demand for the products of the industry from the Government for military purposes as well as from the home market specially because of reduced imports from outside due to war conditions offered a golden opportunity to the cotton industry. The competition of British goods, particularly in respect of finer counts, was also greatly reduced. But the difficulties of importing machinery and other necessary stores from outside during war time stood in the industry's way and the development was greatly checked accordingly. Though the increase in the number of mills and the spindles was not very great, the increase in the number of looms reached the percentage of 25. Thus the total production of mill cloth did register an increase. The importance of weaving continued and the trade in the export of yarn further substantially declined. Though the total imports of yarn and piece-goods suffered, those from Japan showed a considerable increase. It was a portent for the future.

It was followed by the period of post-war boom which began in 1917 specially in Bombay. The boom lasted for a period of 6 years and was marked by a number of new features. There was a rise in the number of mills but in Bombay the expansion took place in the form of an increase in spindles and looms. Over-capitalisation was also in vogue in one form or other. The total production of yarn and cloth increased and mills worked to their full capacity, and imports of yarn and piece-goods fell heavily.

The post-war boom was only short-lived and closely on its heels followed the depression (1923-28) which was more particularly marked in the Bombay industry. Such world-factors as the altered relations between the agrarian and general prices since 1920 which had reduced

the purchasing power of the masses, the cyclical character of depression after the post-war boom and the rising trend of American cotton prices which determined the cost of raw-material of Indian industry were responsible for this depression. Another important cause was the Japanese competition not only in the outside markets but also in the home market. The advantage of the Japanese over Indian industry lay in a number of factors as depreciated yen (upto 1929), inferior labour conditions in respect of hours and the employment of women and juveniles at night, (the conditions remained inferior even after 1929 when night work for females and boys under sixteen was prohibited, hours of labour for adults were unrestricted and hours for women and young persons could be extended), the double-shift working of mills, state-aid to industry received in a number of forms, better climate which effects efficiency of labour, organised buying of raw cotton both in America and India, and cheap freight. The variations in rupee-exchange which pursued an upward trend from 1923 as the result of the Government's deliberate policy which was ultimately fixed at 1sh 6d also produced a depressing effect upon the cotton industry in more than one way. Not only the industry was put at a disadvantage of 12½% (nearly) as against all foreign countries including Japan and Britain, but it also suffered on account of the reduced purchasing power of the agriculturist-class due to this rise in our foreign exchange from 1sh. 4d. to 1sh. 6d. which rise also destroyed Bombay's supremacy in some of the overseas market specially China. The depression was more severe in case of Bombay than other centres and for this in addition to the above causes several others were also responsible. Over-capitalisation caused by purchases of machinery at inflated prices (true more of Bombay than of other centres), the high dividends of the boom period, loss of the China trade in yarn not compensated by an increase of piece-goods exports, in-

creasing competition from Ahmedabad and other up-country mills, higher labour costs in Bombay, high local taxation in the Bombay city, and the higher levels of cost of fuel and power and water combined with the difficulties of finance in the period of depression deserve special mention in this connection. Thus we find that as a result of these special conditions when the world began to experience a general trade recovery by 1924-25 after the post-war depression, the depression in the cotton industry went on unabated right till 1928 on which was then superimposed another world-wide depression of 1929-30.

This worsening situation in the industry naturally created a strong demand on the part of the mill-owners for protection from the State. Before this the industry had the only advantage of a revenue duty which to meet the requirements of war finances was raised from 3½% *ad valorem* (Before war) to 7½% in 1917 and further to 11% in 1920. The force of circumstances ultimately led the Government of India to appoint a Tariff Board in 1927 and make an enquiry. The majority of the Board proposed an increase in the import duty of cotton piece-goods from 11 per cent. to 15 per cent. for three years and no increase on the duty on yarn, and a bounty on the spinning of higher counts of yarn. The main consideration before the Board was inferior labour conditions in Japan. First the Government refused to take any action, but in response to pressure of the public opinion it finally decided to impose a small duty on imported yarn in 1927 (specific duty of 1½ annas per lb. unless the value exceeded Rs. 1-14-0 in which case the duty was fixed at 5% *ad valorem*) for a period extending upto 31st March, 1930. Import duties on mill stores and machinery were abolished from 1st October, 1927, as was recommended by the Tariff Board. The existing import duty on artificial silk yarn was also reduced from 15 to 7½ per cent to compensate the hand-loom weaver for increased import duty on yarn and to

facilitate the diversification of Indian mill production. The Board had also suggested certain internal reforms in the industry as better organised purchase of raw-material, increasing labour's efficiency, diversification of production and production of higher counts, and greater attention to the development of internal and outside markets. To some extent certain mills attempted to introduce economies which led to labour strikes and a worsening of the situation. The depression in the industry continued and this gave rise to more substantial demand for State protection.

Accordingly in 1929 (July) Mr. G. S. Hardy was appointed by the Government to enquire into the question of protection to the industry. Mr. Hardy justified the need for protection and declared that Japanese competition had been rapid and uninterrupted. The Government responded by a passing Cotton Textile Industry Protection Act in 1930 (April) which was to last upto 31st March, 1933. The general *ad valorem* duty was raised to 15%, and an additional protective duty of 5% was levied on goods of non-British origin. Regarding plain grey goods, however, an exception was made in that they had to pay a minimum duty of 3½ annas not only in case of non-British goods but also of the British origin. This preference in favour of British manufactures from the backdoor was very ingenous and was much resented. The protective duty on yarn (imposed in 1927) was continued by this Act.

In the meanwhile two important developments affecting the cotton industry had made the situation complicated. By the end of 1929 world had come in the grip of a general trade depression which adversely affected the fortunes of the cotton industry. At the same time the political situation of the country also worsened and the civil disobedience movement was started. This gave a

great impetus to the industry with its emphasis on Swadeshism.

The Economic Depression disturbed the Government of India budget and the Indian Finance Act of March, 1931 placed an additional duty of 5 per cent. *ad valorem* on imported cotton piece-goods, and the Supplementary Finance Act of November, 1931 further imposed a surcharge of 25% *ad valorem,* on all import duties then existing. The duty on imports of artificial silk piece-goods was also raised to 40 per cent. These changes in the tariff along with the encouragement got from Swadeshism did help the cotton industry which; however, was struggling through a most severe depression of its kind. At the same time an import duty of 6 pies per pound on all raw cotton and of 10 per cent. on machinery and dyes used by the industry was also levied.

The protective duty imposed by the Act of 1930 was to expire on 31st March, 1933 and therefore the Government in April, 1932 directed the Tariff Board to enquire into the question of the grant of substantive protection to the industry. In the meantime Japan had gone off the Gold Standard (1932) and as a result Yen began to depreciate from February, 1932 onward. This meant a great advantage to Japanese cotton goods which began to invade the Indian market in a large measure. The Government, therefore, asked the Board to hold a special enquiry (July, 1932) as a result of which the duties on foreign piece-goods were raised from August, 1932, to 50 per cent. or 5¼ annas per pound, whichever was higher, which was further raised to 75 per cent. or 6¾ annas per pound, whichever was higher, in June, 1933 as the severity of the Japanese competition continued unabated. Because Government's consideration of the report of the Tariff Board of 1932 was not completed, the period of the Protection Act of 1930 was extended first to 31st October,

1933 and then again to 30th April, 1934. At the same time notice was given of Government's intention to abrogate the Indo-Japanese Trade Convention of 1904 (denounced in April, 1933) since it prevented the Indian Government to impose safeguarding duties on Japanese goods alone.

It was at this time that as a result of negotiations on the one hand between Japan and India and on the other between England and India, two important Trade Agreements were signed.*

The Tariff Board of 1932 after a thorough enquiry arrived at the conclusion that the claim of the cotton industry to a "substantive protection" was established. Accordingly the Indian Tariff (Textile Protection) Amendment Act, 1934 was passed and came into force from 1st May, 1934. The Act was made in the light of the above two agreements and provided for an import duty of 25% on British piece-goods and of 50% on non-British 'piece-goods (in case of plain grey goods) with a minimum specific duty of $4\frac{3}{8}$ annas per lb. on the former and $5\frac{1}{4}$ annas per lb. on the latter.† The life of the Act was limited to 31st March, 1939, but it recognised the need for an examination of the scale of duties on two occasions: First on the expiry of the Mody-Lees Pact at the end of 1935, and secondly at the end of the Indo-Japanese agreement in March, 1937.

Accordingly in September, 1935 a special Tariff Board was appointed to examine the duties on British goods and the Board recommended a reduction of rates which came into effect from June 25, 1936. The reduced rates were 20% *ad valorem*, with $3\frac{1}{2}$ annas per lb. (from 25% or $4\frac{3}{8}$ annas) as a minimum specific duty on plain

*Mody-Lees Pact of 1933 which was to continue till the end of 1935; Indo-Japanese Agreement of 1934.

†This rate of duty had actually come in force so far as non-British goods are concerned from 8 January, 1934 as a result of the Indo-Japanese agreement.

grey goods, on all British piece-goods other than prints. Duty on cotton yarn remained the same.

The Indo-Japanese agreement was also subsequently renewed for a further period of three years ending March, 1940 which did not bring any material modification in the rates of duties on Japanese piece-goods.

In March, 1939 a new Indo-British Trade agreement was signed replacing the Ottawa agreement of 1932. In the light of this agreement the Indian Tariff (Third Amendment) Act of 1939 (April) was passed which further reduced the duties on British goods as under:

$17\frac{1}{2}\%$	Printed goods.
15% or Annas 2 $7\frac{1}{2}$ pies per lb. whichever is higher.	Grey goods.
15%	others.

These were the basic rates which were subject to an increase in case of increased imports, and a decrease in case of decreased imports by $2\frac{1}{2}\%$. The New Act came into force on 1st April, 1939, and extended the period of operation of the protective duty on cotton piecegoods upto 31st March, 1942. On account of the beginning of the second world-war the imports of British goods were reduced and from 17th April, 1940 the duties were accordingly reduced by $2\frac{1}{2}$ per cent. A retrograde step taken by the Government in 1939 was further enhancing the import duty on raw cotton from 6 pies to 1 anna per lb. The duty on the long-staple cotton hit the industry particularly hard and has resulted in an increase of foreign yarn imports into India in lieu of foreign cotton. This has adversely affected both the manufacturer as well as the grower of long-staple cotton in India.

We have examined in the foregoing paragraphs the extent of help the cotton industry got from the State and our conclusion is by no means very hopeful. The tardy attitude on the part of the Government in the beginning has been followed by a very severe breach in her protectionist policy afterwards in the shape of a preferential treatment to the British goods. Here it is very important to remember that competition between U.K. mills and Indian mills has increased every year and therefore need for protection against British goods was as real as in any other case. Such a protection was also further necessary to encourage the manufacturing of finer counts by Indian mills.

To pick up the link, we should conclude our survey of the Indian cotton industry with a brief description of its progress and trends in recent years. In spite of Government protection the industry continued to work more or less under a gloom right up to 1937, the years 1934-35, 1935-36, and 1936-37 being years of stagnation. The industry however registered sudden progress during 1937-39. This must be attributed to the weakening of the Japanese competition owing to the Sino-Japanese war and its reactions on the one hand and fall of cotton prices on the other. The future trend however was not very hopeful for the industry as several adverse factors, like increased wages, doubling of import duty on cotton, reduced import duties on British goods, and the levying of Property Tax in Bombay and Ahmedabad for meeting the cost of prohibition, had come into being. Since the end of 1938 Japan had also begun to pay increasing attention to Indian trade, and the growing internal competition as well as reduced domestic demand caused by the 'recession' in business conditions were also other factors. But in September, 1939 the second world-war broke out and changed the whole situation, and the entry of Japan in the war gave the much needed relief. The demand for

Indian goods has increased due to defence requirements as well as the need of Empire and neutral markets which received their imports from belligerent countries before hand. Foreign imports in India have also been reduced. But the difficulties of freight and of improving the required machinery etc. as well as the loss of several outside markets in the belligerent occupied territories are some of the facts on the other side, that should not be neglected. On the whole, however, war has stimulated the industry. Exports have increased to Australia, New Zealand, South Africa and other countries which previously depended on British imports, though much of these exports has been at the cost of reducing stocks for the internal market to the great difficulty and distress of the general public. How far the recently established control (June, 1943) over the cloth market by the Government is going to succeed is, however, to be seen. New mills have also been started and for the first time in the history of the cotton industry many new lines of production as mosquito nets, camouflage nets, cellular and water-proof khaki have been undertaken.* A notable tendency in the production of cotton mills has been towards the manufacturing of higher and higher counts, Bombay, Ahmedabad, and Madras being ahead of other centres in this respect. This needs more encouragement from the Government than hitherto given. Import duty on raw cotton is a retrograde step from this point of view, we have already remarked. War, therefore, has undoubtedly given an opportunity to the Indian cotton industry to strengthen its position but how the industry would fare afterwards would depend as much upon its inherent strength and efficiency as on the post-war conditions of world economy and the readiness and capacity of the Indian Government to adjust to them. More recently in 1942-43 the industry suffered a decline due to labour strikes, shortage of chemicals, and pre-

*Industrialization—O. V. Pamphlet on Indian Affairs.

occupation of the mills in supplying special war requirements.

Jute Mill Industry:—Though sufficient evidence is lacking about the manufacture and use of jute in ancient India, the extensive use of jute goods from the beginning of the last century is beyond doubt.* From 1833 Jute manufacturing industry developed in Dundee and this affected the position of Indian industry very severely. India became a raw jute exporter now. But in the middle of the 19th century the Jute mill industry began in this country also.

The first jute-spinning mill was started at Rishra near Serampur in Bengal in 1855 and the first power-loom was introduced in 1859. The growth of the mill industry drove the last nail in the coffin of the hand-loom industry which now disappeared. The progress of the industry was slow in the beginning because of the absence of trained workers and experience in a new venture. By 1885, however, the industry had attained a fairly satisfactory progress. The production of gunny bags predominated in this period.

During the latter part of the 19th century the Industry had to experience a difficult time. Mills produced more than was demanded and this led to depression which was further accentuated by such causes as rise in the price of raw jute, series of famines, and epidemics during the decade 1891-1900, and the shortage of labour because of the outbreak of plague. But in course of time as the causes of depression subsided the industry began to flourish. The chief characteristic of this period was the tendency towards greater output of hessian cloth in place of gunny bags.

Then came the last world-war with a heavy and active demand for manufactured jute goods for military

*Growth ot Trade and Industry in Modern India: Vakil and others.

and transport purposes. This meant a great impetus to the industry which, however, suffered from a few handicaps also—trade with enemy countries ceased, freight difficulties arose, an export duty on raw and manufactured jute was imposed from March, 1916 to meet war expenses. But on the whole the industry entered on a period of expansion and prosperity from 1914. After the war was over the industry had to pass through bad times because while the demand slackened, the costs of production increased owing to a rise in the price of jute and in wages. The mills tided over the difficulty by agreeing to work short-time. With the return of normal conditions, however, the demand grew and the industry began to develop*

The world economic depression, as in the case of other industries, did not leave the jute industry also unaffected. Declining prices, presence of large stocks and frequent labour troubles were the important causes. But owing to its better organisation the industry faced the difficult times more successfully than the cotton industry. During the ten years ending on 31st March, 1936 a policy of curtailment of output was in force by restricting hours of work to 40 per week so far as the members of the Jute Mills Association (formed in 1896) were concerned. The position of the industry became very critical in 1937 and 1938 owing to unrestricted production as from 1st April, 1936 hours of work were extended from 40 to 54 per week and from 1st March, 1937, no restriction at all remained. This was because no agreement could be reached with non-Association mills. To protect the industry the Bengal Government intervened and by means of an ordinance of September, 1938 limited hours of work to 45 per week. This encouraged the mills (Association as well as non-Association) to enter into a voluntary agreement from 15 March, 1939 whereby member mills agreed to hours of

*Trade and Industry: Vakil and others.

work which would not be less than 40 and more than 54 per week. From 31st July, 1939 a supplementary agreement was made restricting hours of work to 45 per week with 20 per cent. Hessian and 7½ per cent. sacking looms sealed.

In the meanwhile the war broke out which increased the demand for jute manufactures. Large orders were placed by the Indian Government. Thus the jute industry was lifted out of acute depression and production and exports both increased. No restriction on hours of labour was necessary now and under special order mills worked at 60 hours per week. But this hopeful situation did not last for long and soon the need for restriction was again felt. From 8th April, 1940 working hours were reduced to 54 per week which were further curtailed to 45 per week from August, 1940, and from September, 1940 up to the end of the year the Indian Jute Mills Association decided to close their mills for one week in each month. With new orders however the situation was reviewed and at the close of 1941 mills were working 60 hours per week* The shortage of coal has been the most important difficulty in the way of the jute industry. And it is feared that the industry might not be forced to reduce the working hours to 40 per week. The industry is also subject to an internal system of control by the Indian Jute Mills Association and the maximum prices fixed for manufactures under the Government pressure are low which need revision. At present the lower prices benefit the American and other foreign purchaser of our jute manufactures. It should not be forgotten, however, that the necessity to raise the present raw-jute prices fixed by I. J. M. A. is equally great.

*The agreements to which references are made are between member mills of the Association. Five jute mills are outside the Association. There was an agreement between them and the Association mills between 1st August 1932 and 31st March 1936 when the agreement ended.

We have traced the development of jute industry in India. We shall close our remarks with a comparison of the industry with the cotton industry. While cotton industry is Indian owned and financed, the jute industry is foreign managed and also largely financed by foreign capital. Only of late Indians have purchased shares in jute mills. Then the position of the jute industry in the world market is much stronger than that of the cotton, India possessing a monopoly of jute. An average jute mill is also far bigger in size than a cotton mill. Lastly while the cotton is spread over a greater part of the country, the jute industry is centralized within a radius of forty miles only.

The future development of jute industry is linked with the general programme of industrializing the country and the success of the former will be determined by that of the latter, goes without saying.

Woollen Industry:—In comparison to the cotton and the jute industries, the importance of the woollen mill industry is much less, as the handloom industry plays a greater and more important part. The slow growth of this industry in our country can be traced to other factors also. The quality of our wool is poor for woollen and worsted goods manufactured on the power-loom; the climatic conditions, specially in the south, are not favourable to a large demand; and the poverty of the Indian consumer is a further stumbling-block as the price of the woollen goods is higher than that of the cotton.

The first woollen mill in India was started in Cawnpore in 1876 which was a suitable place both from the viewpoint of raw material as well as a marketing centre. In 1882 another mill was started at Dhariwal, in 1888 at Bombay and in 1886 at Bangalore. The slow growth of the industry can be judged by the fact that before the last world-war there were only five or six mills. The war,

however, gave a direct impetus to this industry also as to others, and a few new companies were floated mainly in Bombay.

In the post-war (1914-18) period the industry was faced with foreign competition from Italy and Japan. Italian blankets and tweeds and cheap merino yarns and worsted piece-goods from Japan, being within the reach of the poorest, offered the keenest competition in the cheaper classes of woollen goods for which there is ordinarily a large demand in India. During 1924-29 some of the new mills as a result of this competition went into liquidation.*

On account of these difficulties the industry applied for protection and the case was referred to the Tariff Board in October, 1938. The Board examined the claims of the woollen (inferior) and worsted (superior) branches of the industry separately, and recommended protection in both the cases. The Board emphasised the intensity of foreign competition which was much enhanced due to depreciation of yen and rigging up of the rupee-exchange, and the chaotic conditions in the world's foreign-exchanges combined with trade depression and aggressive trade policies of the competing countries made the situation all the more difficult. But on spurious grounds the Government denied protection to the industry. The denial in the case of the woollen branch was based on the mysterious attitude which the Cawnpore and the New Egerton (Dhariwal) woollen mills, forming a very important group in the industry, displayed in not tendering their evidence before the Board. The Government, therefore, got an occasion to argue that the Board's findings did not apply to the industry as a whole. It may be necessary to remember at this juncture that the Cawnpore mills are dominated by British interests, and some of them have attained a very high standard of efficiency which may be the cause of their strength. Still the refusal of the

*Indian Fiscal Policy: Adarkar.

Government in extending protection to the industry cannot be justified when the national interests definitely demanded it, merely because a particular section of the industry was either indifferent or opposed to the demand. The ground for denying protection to the worsted section was that the industry had to import raw material from foreign countries. Even this stand of the Government was most untenable when the Tariff Board had clearly laid down that it was no competitive drawback in view of the fact that England, Italy, and Japan, the principal competitors of India, also depended upon the foreign supplies of the raw-material, viz., worsted. This *laissez-faire* policy of the Government laid the industry open to the full blast of foreign competition and checked its future development.

Of late, however, the industry recorded some progress, perhaps because of the increasing world demand for woollen goods caused by the preparations of war. And when the war has actually broken out, the impetus got by the industry is more substantial and certain. Due to Government purchases woollen mills have increased their output. The industry has much scope for future development but without a sympathetic industrial policy on the part of the Government it is bound to remain hampered. At present majority of our mills manufacture cheaper goods only, though otherwise all varieties of woollen fabrics are manufactured in India.

Silk Industry:—Like the woollen industry, in this case also handloom occupies a predominant place. The industry in India, owes its origin to the ancient past when silk goods were used as articles of luxury by the rich. The Provinces of Gujrat and Bengal and after Tippu Sultan, Mysore also, were the important centres of production. This old industry, however, in course of time decayed because of reduced home demand due to the

disappearance of courts etc. and foreign competition in external markets.

The development of the silk industry on modern lines began during the present century, but the growth has been very slow. There are various causes responsible for this: Being a luxury industry, greater attention has to be paid to the artistic production which is not amenable to the standardised production of a modern factory; delicate machines and skilled-labour found in European countries are not available in India; and lastly the demand in different provinces is varied because of differences in fashion and traditional use. The industry is an urban industry and is distributed over a number of Provinces as U. P., Bengal, Bihar, Orissa, Bombay and Madras. However, on the whole we can say that the industry has not been in a flourishing condition at all. In recent years various factors such as general depression, and competition of the Chinese, the Japanese and European manufactures aggravated by exchange depreciation and state-aid to industries of different countries by their respective governments have only increased the difficulties the industry has been facing. The Indian Tariff (Textile Protection) Act of 1934 also embodied provisions regarding the protection of the silk industry and imposed duties on raw silk, silk yarn, piecegoods, and mixtures, as well as on artificial silk yarn, in the last case the duty being raised.* But these duties did not help the industry first because the situation in relation to foreign competition went on deteriorating, and secondly the duties when even imposed were inadequate. The Chinese and the Japanese exchanges continued to fall till 1937 and the intensity of competition from these countries naturally went on increasing. Therefore, in 1938 the question of continuing protection was referred to the Tariff Board

*The duty on artificial silk yarn was further raised in 1941-42, from 3 annas (1934 Act) to 5 annas per pound.

again and the Report was presented in 1938 December. The Tariff Board clearly brought out the fact that during the first five-year period of protection (1934-39) dumping was aggressively practised by Japan as well as China. The Board naturally recommended an all-round increase of duties.* The Government first did not publish the report for a long time which was released only recently with the remark that it (Government) "finds it impossible in the present position of uncertainty to form any decision as to a long term policy."[1] The reference obviously is to the uncertain conditions of war. The Government's step is not justified on the double ground that action could have been taken much earlier which was delayed and even the uncertain war conditions can be no real justification for not helping the industry. The present position is that the period of the old duties was extended up to 1942. So far as the future scope for development is concerned, there is enough for it. The coming of the war has also done one good thing for the industry and it is that the Competition from Japan as well as Italy has come to an end. It, however, remains to be seen whether after the war the industry gets the necessary aid, in all its sections, or not from the State because the progress of the industry in a large measure would depend upon this. For its raw material, the industry does not wholly depend upon home production but also uses foreign silk which is of superior quality and is mostly from China, Japan and Italy. The war of course has either stopped these imports as in case of Japan and Italy, or disturbed as in case of China. Attempts to improve Indian silk are also on foot in different places as in Bengal, Kashmir, and Mysore.

Sugar Industry:—The Indian Sugar industry is a recent phenomenon in the industrial history of our country. Its rapid growth has taken place only after the

*It should be clearly understood that the scope of the two Tariff Board enquiries was not limited to only Silk Mill Industry but it was mainly concerned with the Sericulture Industry as well as handloom industry.

grant of protection to the industry by the Sugar Protection Act of 1932 under the recommendations of the Tariff Board of 1931. Before the grant of this protection, the industry enjoyed the benefit of a revenue duty which was enhanced to Rs. 7-4-0 per cwt. in March, 1931. In September, 1931 a revenue surcharge of 25% (Rs. 1-13-0) was also imposed. Under the above Protection Act, the import duty was fixed at Rs. 7-4-0 per cwt. until 31st March, 1938, and the 25 per cent. surcharge continued. From 1st April, 1934 the protective duty was enhanced to Rs. 7-12-0 per cwt. but the surcharge was reduced to Re. 1-5-0, thus no difference was made in the total duty. At this date an excise duty on internal production was also levied at Rs. 1-5-0 per cwt. This was a handicap in the way of the home industry and was naturally resented by the manufacturing interests in the country. From February 28, 1937 the protective duty was reduced to Rs. 7-4-0 and a surcharge was imposed at Rs. 2/- per cwt. to equal the excise duty which was raised from Re. 1-5-0 to Rs. 2/- per cwt. The total import duty was thus put at Rs. 9-4-0 per cwt. which continued upto 31st March, 1939. The increase in the excise duty was a further handicap on the industry which suffered owing to reduced profits. The problem of continuing protection to the industry for the remaining period of 8 years was examined by a Tariff Board in 1937 which recommended continuance of the protection at the existing rate *i.e.* Rs. 9-4-0 per cwt. upto 31st March, 1946. The Government, however, decreased the protection to Rs. 8-12-0 per cwt. from 1st April, 1939 to 31st March, 1941 and promised a further enquiry in 1940. But no Tariff Board was made due to war conditions and the protection at the same rate has been continued. In March, 1940 the excise duty on Sugar was further raised from Rs. 2 per cwt. to Rs. 3 per cwt., and therefore the import duty was also raised by Re. 1 to Rs. 9-12-0 per cwt. And as there exists besides this

a general surcharge of 20% on all custom duties, the existing protection enjoyed by the Sugar industry from 1st March, 1942 is Rs. 11$\frac{5}{8}$ per cwt., the excise duty remaining at Rs. 3 per cwt.

Under the impetus of the protection granted by the Government, the industry made a rapid progress.* An idea of this progress can be had from a large increase, in the number of factories as well as in the quantity of sugar manufactured, that has taken place during this short period of a little more than a decade. In 1931-32 the total number of factories working in India was 32 only which rose to 139 in 1938-39 when the first period of protection came to an end. In 1940-41 the number had further risen to 148. The total quantity of Sugar manufactured from cane in 1931-32 was 158,581 tons only which figure at the end of 1938-39 stood at 650,800 tons and which at the end of 1940-41 had further risen to 1,095,400 tons. During this period the quantity of sugar refined from Gur as well as produced under the khandsari system has, however, continued to fluctuate, and on the whole has registered a decline. Thus it is the cane-factory sugar industry which has made rapid progress under the State protection. Along with this rapid increase in internal production the imports of sugar have naturally declined. In the years up till 193 -31 the annual average imports amounted to about one million ton which were reduced to 11,960 tons only in 1936-37. In 1938-39 due to deficit in indigenous production the imports, however, increased to 254,000 tons which have, however, again declined to 30,000 tons with increased production during the war. The result of all this progress has been that India to-day is self-sufficient in matter of her internal consumption of sugar,

* On the eve of protection the industry was fast declining due to large scale dumping of foreign subsidized sugar, and effects of trade depression. other difficulties in the way of our sugar industry were low-yield per acre of sugar-cane, absence of up-to-date methods of extracting juice, poor yield of molasses. difficulty of getting sufficient sugar-cane from near the factory and heavy capital charges of the undertakings.

the Indian sugar industry is now the second largest industry in the country, first being the Cotton textile, and India is the largest producer of sugar among all the countries in the world.

The rapid development of the industry in the country gave rise to an unhealthy feature, that of over-production which resulted in much internal competition. There was accordingly a precipitate fall in the price of Sugar in 1937. To avert this internal competition a Sugar Syndicate comprising about 90 mills was brought into existence. Later on the industry also approached the Governments of the U.P. and Bihar for legislative interference to restrain competition. As a result both the governments have passed Sugar Factory Control Acts and made it compulsory for every mill to obtain a license for working sugar factories from the Government. The membership of the Sugar Syndicate has been made one of the conditions of the grant of a license. All the mills working in the two provinces have to sell their sugar through the Syndicate. The life of the Sugar Control Act was extended in 1940 to June 30, 1944. In the U.P. and Bihar under the Sugar-cane Act of 1934 minimum prices of sugar-cane have also been fixed since 1934. The Sugar Syndicate has all along complained that the minimum prices have been fixed at uneconomically high rates and have adversely affected the industry specially in relation to other provinces. Another difficulty in the way of Indian Sugar Industry arose due to the ban imposed by the Government of India during the year 1937 upon the export of sugar from India to any country, by sea, except Burma for a period of five years. The International Sugar Agreement under which this ban was imposed expired in August, 1942.

For the success of the Sugar industry, as was pointed out by the Tariff Board of 1931 also, it is necessary that greater attention is paid to agricultural as well as indus-

trial efficiency. The most important problem concerning agricultural efficiency is that of increasing per acre yield of cane. Though the average yield for India has undergone some rise from 12.3 tons per acre in 1930-31 to 15.6 tons per acre in 1936-37, it still compares very unfavourably with Hawaiin or Java yields which in 1928 were 47.3 tons and 52.5 tons per acre. So far as introduction of improved variety of sugar-cane is concerned, excellent results have been achieved due to the efforts of the Imperial Council of Agricultural Research and Provincial Agricultural Departments. In 1938-39 out of a total area of 3,248,000 acres under cane the area under improved varieites was about 82 per cent. whereas in 1930-31 out of 2,905,000 acres, only 20% was under the improved variety. Cultivation of sugar-cane by the manufacturers themselves is suggested as one way to improve the yield per acre as better methods of cultivation would be easier to adopt in such a case. Coming to the industrial side, the important points that deserve our attention are the improvement in the extractive efficiency of Indian factories, which partly depends on good cane and partly on mechanical efficiency, the size of an average sugar factory, and the utilization of by-products. So far as extractive efficiency is concerned, it is gratifying to note that the percentage of recovery of sugar in India has registered an increase since 1931-32 both for country as a whole as well as for provinces. In 1938-39 the average percentage of recovery for the whole of India was 9.29 as compared with 11.61 for Java Average. But during past years the recovery has been much higher, often higher than 10 per cent. and always higher than 9.75 per cent. The position needs further improvement in future. An increase in the average size of a sugar factory is also desirable though there has taken place some improvement in this respect also. The utilization of by-products is another necessary improvement. Production of power-

alcohol has great prospects and must be encouraged by the Governments in sugar producing areas as U.P. and Bihar.

Coming to the present position of the sugar industry we find that during the first three years of war the industry showed no signs of progress, it being in the fourth year that signs of prosperity were shown. The fall of Java and the destruction of its industry fundamentally altered the position of Indian Sugar industry from one of excess production to brilliant prospects of increasing demand at home and abroad especially in neighbouring Asiatic and African markets. The problem of maximum production being secured is therefore, the most important one for the industry at present. Since April 14, 1942, the industry has been brought under the Government control as a war measure. But the Sugar Controller has so far not succeeded in this most important task of maximising the production. The capacity for the industry is 15 lakh tons per year, whereas we need 12 lakh tons at the pre-war consumption level for our home market, and 50,000 tons for armed forces and thus we may afford 2½ lakh tons for foreign countires. Though all restrictions on production were removed in 1942-43 season but the total production was estimated at 11 lakh tons only. Even this was possible when the cane price was raised from 8 annas to 10 annas per maund and sugar price from Rs. 12-3-0 to Rs. 14-8-0 per maund. To ensure sufficient supplies of sugar-cane to factories so that they may produce upto their maximum capacity, the crying need of the hour is to raise the sugar-cane prices to at least Re. 1 per maund in view of the increased cost of sugar-cane production as well as increased cost of living. This is not in the cultivator's interest, but also in that of the manufacturer as well as the consumer if cane-supplies are not to suffer as well as sugar shortage is not to occur. Increase in the sugar-cane price may not necessarily be followed by corresponding rise in sugar price but even if

that is necessary that may be done. The possibility, however, must be reckoned that with increased production the sugar producer may get some sugar to sell in the foregin market at the prevailing very high sugar prices and he might find it possible to sell sugar in the home market at comparatively lower price. Anyway it is as much in the interest of the industry as of sugar-cane grower that the sugar-cane price is raised from annas ten per maund to at least Re. 1 per maund.

Iron and Steel Industry :—The importance of this industry in the industrial life of a modern nation cannot be over-emphasised. It would not be perhaps any exaggeration to say that it is the most important 'basic' or 'key' industry of the whole lot. Basic industries are those which either provide raw-material or vehicles of production for other industries. Iron is used as raw material in a number of industries, hence its industry is a basic industry. Similarly engineering industry is also a basic industry because machines, tools etc. which are the products of the Engineering industry are used as a vehicle of production in the manufacture of other articles. Coal, hydro-electric power, non-ferrous metal, vegetable oil, heavy chemical and leather industries are other examples of the 'basic' group. There may be certain industries which may serve the purpose of a basic industry as well as may not. Coal may be consumed for industrial as also for purposes of home consumption. In one case it is used as a basic product, in another it is not so used. Thus the use that is made of the product of an industry is the correct criterion of distinction.

India possessed a very well-developed iron and steel industry in the past and the famous iron pillars of historic antiquity stand as an undeniable testimony to this fact. But the rise of the modern iron and steel industry in the west ultimately put an end to our old industry

organised on antiquated lines and India became an iron and steel importing country.

The first attempt at establishing an iron works on modern lines was made in 1830 in the South Arcot District of Madras which was followed by a few others as well. But these attempts did not prove successful. The first effective step, was taken in 1874 by the Barkar Iron works (acquired in 1889 by the Bengal Steel and Iron Company) by starting an iron industry in Bengal on the Jherria Coal fields. The next venture to follow was that of the Tatas in 1911 which was a landmark in the history of the Indian steel industry. The Tata works were established at Sakchi in the Singhbhum districts and pig iron was first produced in December, 1911 and steel in 1913. Soon the last world war broke out and it gave a great encouragement to the industry. A large scheme of extension was proposed in 1917 but could be completed only in 1924, the difficulties of the war and the post-war period such as regarding imports of machinery being the cause of the delay.

After the war and specially the post-war crisis that set in in 1921, the industry, however, had to face difficult times. There were a number of unfavourable factors, during the war the capacity of the steel industry of the world had increased and the Indian industry now had to face its competition, the demand was also experiencing a fall due to depression which resulted in the intensification of competition, the general depreciation of the continental exchanges also contributed towards the same thing, the establishment of thoroughly modern plants in the place of the old ones destroyed by war in Belgium and France, and lastly some element of dumping were also additional causes. There were certain internal factors also, for example the coal-contract and the rail-contracts of the Tatas turned out to be very unfavourable. All this resulted

in making the condition of the Indian Steel Industry very critical. The Tariff Board examined the case of the industry and published its report in 1924. It was the first application of the policy of discriminating protection adopted by the Government in early 1923. The Board recommended protection for the industry and accordingly the Steel Protection Bill was passed by a Special Session of the Legislature in May and June, 1924 according to which specific duties were imposed on certain articles and bounties were granted on certain others.

But soon it was discovered that the protection granted by the 1924 Act was inadequate as the unfavourable situation continued, to grow more and more seriously. Depression continued exchanges depreciated and a new factor in the shape of steady rise in the rupee-exchange was also to be reckoned with. The matter was again referred to the Tariff Board which recommended further extension of import duties. The Government, however, decided to grant bounties not exceeding Rs. 50 lakhs in all in the one year, from October, 1924 to September, 1925. In June 1925 the Board was again required to examine the question of protection and suggested a further bounty upto 31st March, 1927 not exceeding Rs. 90 lakhs. The Government, however, reduced the rate of bounty so as to keep the maximum within Rs. 60 lakhs. Thus we find that between 1924-27 the industry also got supplementary protection in form of bounties which including the original bounties of the 1924 Act in the aggregate was not to exceed Rs. 256 lakhs, the actual figure coming to Rs. 242 lakhs only.

The Steel Protection Act of 1924 was to come to an end on 31st March, 1927. The Tariff Board, therefore, carefully examined the position of the industry in 1926 and recommended continuance of protection for a further period of 7 years. The Board did admit that as a result of the first measure of protection the industry had progressed,

but in view of the exchange fluctuations in Europe, which were expected to continue, as well as of the formation of the continental Steel Cartel foreshadowing a more organised competition from continental goods, and the grant of a rebate by British manufactures to those who purchased all their steel requirements from them, it was clear that the industry could not dispense with protection altogether. Accordingly a bill was passed in 1927 which came in force from 1st April, of the same year. Basic duties were fixed in case of British goods whereas an additional duty was to be levied in some cases on non-British goods. This was the most objectionable feature of the Act as it amounted to giving preference to the British goods from the backdoor. There was much protest against this but to no purpose.

In 1932 an important event took place in the fiscal history of the country in the form of the Ottawa Agreement. At the same time a supplementary agreement regarding iron and steel industry took place (September, 1932) between the Tata's and the British manufacturers which was based upon the provisional understanding arrived at between the Indian Delegation and the British Delegation at Ottawa. As a result of these agreements import duty on galvanized sheets from non-British sources was fixed at Rs. 83 per ton, while on sheets imported from Britain was reduced to Rs/ 53 per ton if the sheets were made of non-Indian steel and Rs. 30 if made of Indian steel. The British manufacturers were to use Indian Steel as much as possible for manufacturing galvanized sheets subject to a monthly maximum, and the imports of sheet were to be regulated according to Indian demand. This agreement between the company (Tatas) and British manufacturers expired on March 31, 1934. This agreement to send sheet bars to England to be manufactured there into galvanized sheets was harmful to the development of the industry as a whole.

The Steel Protection Act of 1927 was to end in March, 1934, but it was extended to 31st October, 1934. In the meanwhile the Tariff Board again examined the position of the industry in 1933. The recommendations of the Board were given effect to by the Iron and Steel Duties Act, 1934 which came into force from 1st November, 1934. Under this Act the protective duties were considerably reduced in certain important cases and the resulting fall in custom's revenue was decided to be made up by imposing an excise duty (Rs. 4 per ton) on the home production of steel ingots and a countervailing duty, in addition to the protective duty, was levied on all imports of protected steel. The protection, it was decided, would continue upto the year 1941.

We have traced, in brief, the history of protection granted to the iron and steel industry from time to time. And our conclusion is that though the protection has been halting and various other handicaps as an unsympathetic railway rates policy, and Government of India's rail-purchase policy, differential duties in line with the Ottawa scheme and the later imposition of excise duties on steel ingots accompanied by countervailing duties on imports which hit the internal demand, have come in the way of smooth development, the industry, however, has achieved an all round progress to which different Tariff Board reports have borne unequivocal testimony. Reduction in works cost has taken place, efficiency and technical equipment of a high order has been aimed at and achieved, Indianisation has been carried on and last but not least the industry has been able to finance development practically entirely out of its earnings and depreciation fund. It is the result of all these things that out of the total consumption of those kinds of steel which Tatas manufacture, their share was 76.2% in 1937-38. And all this was in spite of the difficulties that the industry

faced after the last war owing to post-war depression first, and the world-depression of 1929 afterwards during which time a number of other troubles as of exchange-depreciation, monopolist competition from abroad and dumping had also to be reckoned with. It is only in recent years that there have been good times for the industry. The world-wide campaign of rearmament and the breaking out of the world-war in 1939 have given great encouragement. On the one hand there has come about an increase in the demand and on the other foreign imports have been reduced. The political disturbances in 1942 resulting in labour strikes affected the industry adversely.

The development of iron and steel industry is important not only from the point of view of its being an important basic industry, but its progress has also encouraged the establishment of a number of other subsidiary industries in the country. The Triplate industry, the wagon industry, and wires and wire-nails industry are only a few examples. It is due to the iron and steel industry at Sakchi (Jamshedpur) that it and the surrounding territory are developing into a "veritable beehive of modern industries."

The above description about the prosperity of the industry, however, should not blind us to the fact that in the scheme of world production, India is still a very obscure country. This backwardness is especially noticeable in the field of steel production. India suffers from no inherent disadvantage either in respect of raw-material, labour, or fuel which makes the development of the industry difficult. Still the backwardness of the country is a hard fact which can be explained only on the basis of India's general industrial poverty. The growth of iron and steel industry in future, therefore, to a very great extent will be determined by the general progress that India makes in the field of industrialization.

Coal Industry:—The coal industry is one of the most important basic industries in the country and its importance in the country's industrialization is great. The industry came into existence in the second half of the 19th century to supply the demand for coal arising from railway construction. During the last world-war and the post-war years specially the period 1917-21 the industry made remarkable progress. Besides meeting the internal demand, Indian coal was exported to foreign markets also, in Colombo, British Malaya, and East Indies. Prior to the reference of the case of the coal industry to the Tariff Board in 1926, the industry was, however, adversely threatened by a number of factors: (*i*) Railways which were the chief consumers of the coal in India had started their own collieries and purchased coal in the market only when the prices were low. (*ii*) Growing use of electric power and oil for motive power curtailed the demand for coal in Bombay. (*iii*) The export situation was deteriorating. The exports of coal began in the five years ending 1900 and in the decade ending 1915 the annual average of exports was about three quarters of a million tons. Due to shortage of shipping, war years experienced a decline the lowest point being touched in 1918 with 74,000 tons only. The end of the war helped the recovery which was rapid, the figure for 1920 being 1,224,750 tons. This created railway congestion and the Government of India prohibited exports except in certain cases. The restrictions on export were not finally removed till January, 1923. In the meanwhile sufficient harm was done to our export trade in coal. (*iv*) Another difficulty facing the coal industry of the country was the competition in the home market of the bounty fed South African coal. In the overseas markets also the South African coal was successfully introduced during the period, 1920-23. The competition of foreign coal was greatest in Bombay as well as in Karachi. The main complaints against our coal

were two, quality was inferior, and price was higher. Before appointing a Tariff Board, the Government set up a special committee (The Indian Coal Committee) to examine the technical aspects of the industry. In brief the committee's conclusion was that Indian coal should improve both in quality and price and made certain recommendations to achieve this two-fold object. The appointment of a Coal Grading Board was suggested to classify the different seams at Indian collieries, to prepare a grading list and grant certificates of shipment, and the suggestion was given legislative effect in 1925. Similarly to reduce price the committee recommended avoidance of stacking, reduction of four annas per ton in river dues, and increase in the rebate on railway freight from 25 to 37½ per cent. on certified export coal. To the collieries included in the grading list of the Grading Board the above facilities granted by the railway companies and Port Trust authorities. These measures have resulted in restoring to Indian coal its foothold in foreign markets in recent years.

The question of protection was referred to the Tariff Board on 30th September, 1925 and in 1926 the Board concluded its enquiry. The committee unanimously decided against the grant of protection, but regarding the imposition of a countervailing duty on South African coal there was a difference of opinion. Mr. P. P. Ginwalla in his minority report recommended for a countervailing duty of Re. 1-8-0 per ton on South African coal. The Government, however, did not accept this view.

With the coming of the trade depression and the consequent fall in internal consumption, prices suffered a decline which affected the industry adversely. The industry continued to be in a depressed condition till the end of 1936. The demand for coal was less than the immediate productive capacity and over-production thus

created was responsible for depressed prices. Only by the end of 1936 the position took a turn for better. In 1938, the latest year for which figures are available, total production of Indian coal rose to about 283 lakh tons, the highest figure yet recorded. The previous peak figure was in 1930 at about 238 lakh tons.

The present world-war has not been able to stimulate conditions in the coal industry which remains depressed even to-day in spite of the fact that it is a vital material and the coal prices experienced a mild rise from July, 1941 which became very marked from November, 1942.* Shortage of labour and political disturbances in 1942-43 also hampered the industry.

An important problem concerning our coal industry that has come in the front in recent years is about the conservation of our coal resources. The Director General of the Geological Survey, Sir Lewis Fermor, gave a warning in 1936 that within a hundred years India's good quality coal would be exhausted. In October, 1936 the Government of India appointed the Coal Mining Committee which in its report of May, 1937 has suggested the conservation of all good quality coal through legal measures, the minority of the committee even suggested the nationalisation of the industry after compensation to present owners. In the opinion of the committee, stowing was the best means of conserving coal. The recommendations of the committee were embodied in the Sand-stowing Act of 1938 and in the amendments to the Indian Mines Act which provided for the establishment of a Statutory Board to collect the cess on coal to be employed in sand-stowing measures.

Engineering Industry:—It is also one of the basic industries which depends for its raw-material on iron and steel industry. The engineering industry covers the

*Eastern Economist Vol. I. No. 21. Article by P. C. Jain.

operations of steel forging (a process of heating and hammering, distinct from another process known as rolling, by which raw steel is finished) and all processes of fabrication such as painting, machining, drilling, rivetting etc. by which rolled steel is adopted to its final purposes. Machine and tool making industry also comes in this category as do many others.

The effect of granting protection to the iron and steel industry naturally was to increase the price of the raw material of engineering industry. Therefore the Steel Industry (Protection) Act of 1924 also accorded protection to the engineering industry by imposing 25% duty on fabricated steel excluding a few articles as steamers, boats and most of the vehicles. A specific duty (Rs. 40 per ton) was levied on spikes and tie bars. These duties continued upto 1927.

In 1926-27 the Board again examined the case of the industry which pressed for increased protection. But the Board did not agree and recommended a reduction of duty from 25 per cent. to 17 per cent. *ad valorem* and the imposition of an additional duty of Rs. 13 per ton on all fabricated steel imported from countries other than U.K. The Government accepted these recommendations.

The years of world depression from 1929 onwards were the years of difficulties for the industry. The industry suffered from excess capacity. The Tariff Board in 1934 therefore proposed a duty of Rs. 40 per ton on imported fabricated steel "irrespective of the country of origin" to protect it against unfair competition. The Board also pointed out the necessity of encouraging the industry by increasing the demand for its products which could be done by adopting a liberal public works programme by the Government as well as of reorganising the industry. The Government, however, did nothing in the matter. The trade recovery of the recent years in the constructional

industries all over the world helped the industry to some extent. The coming of the war has been a further encouragement. By the end of 1941, 100 firms had been licensed to manufacture machine-tools and a number of simple types of tools and machinery.* In respect of fabricated steel India has become almost self-sufficient. But this should not mean that there is no room for future progress. Our self-sufficiency is a mark of our industrial backwardness and lack of sufficient demand. Greater and greater industrialization of the country would inevitably result in increased demand for engineering works also. Then our dependence on foreign machinery is too well-known to need an emphasis. This is a great handicap to our industrial growth. There is sufficient room, therefore, for the development of engineering industry of varied type in our country but without a forward policy on the part of the Government the chances of such development cannot be very bright. So far the attitude of the Government has been discouraging even in war time. Now it is reported that the Supply Department has drawn a scheme for the manufacture of high grade machines in India.

Chemical Industries:—All manufacturing industries use chemicals at one stage or another. Therefore the importance of chemical industries as key industries is great. They are important, however, from the point of view of national safety also, as they are used in the manufacture of explosives etc. Chemical industries can be divided into two categories: (*i*) Heavy chemicals of which the two most important groups are (*a*) sulphuric acid and the chemicals based on it as nitric acid, hydrochloric acid, zinc chloride, copper sulphate etc., and (*b*) the various forms of soda and the compounds based on them which make the Alkali group. (*ii*) Other chemicals in the production of which the heavy chemicals are used.

*Industrialization; O. U. Pamphlets on India.

In spite of the availability of a large number of the raw materials of the industry prior to the last war only a few chemicals were produced in India in very small quantities. The last war by shutting out foreign imports and making local production profitable gave an impetus to the industry. At the time of the Tariff Board Enquiry in 1928-29 there was practically no production of the heavy chemicals of the Alkali group but recently there have come on the scene two companies, the Imperial Chemicals Ltd. and the Tata Chemicals Ltd., for the manufacture of soda ash, caustic soda, and eventually of other allied chemicals. The greatest success, however, so far has been achieved in the manufacture of sulphuric acid which is most important material for the production of other chemicals. The present war has again given a great fillip to the heavy chemical industry in the country. A number of factories has been established and they are producing suphuric acid, synthetic ammonia, caustic soda, bleaching powder, bichromites, soda ash, liquid chlorine and hydrogen. It is expected that enough soda ash and caustic soda will be produced for India's internal needs. Bengal is an important centre of production. The Government have also erected a plant for the manufacture of supertropical and tropical bleaching powder. In the drugs industry also a most rapid expansion has taken place and more than 75 per cent. of the drugs formerly imported are now produced within the country.*

The question of protection to the heavy chemicals arose for the first time in 1928-29. After the last war the industry was faced with foreign competition which in this case as in other cases was also aggravated by exchange difficulties. The same problem of surplus capacity was there in this industry as in many others. The case was therefore, referred to the Tariff Board in 1928-29 which

*O.U. Pamphlets on India.

justified the claim of the industry to protection. But as the Tariff Board was struck with the defective organisation of the industry, which was on the same scale, and did not want to perpetuate it but rather wanted to replace it by large scale production it recommended a very moderate scale of protection in form of specific duties excepting three acids (Sulphuric, Nitric, Hydrochloric) for which an *ad-valorem* duty was recommended. The Board also recommended bounty for the manufacture of super phosphate which is used as an artificial manure and further advised reduction of railway rates also. The Government, however, did not accept the Board's recommendations about railway freight or bounty to superphosphate but passed the Heavy Chemical Industry (Protection) Act on 1st October which was to last upto 31st March, 1933 and which provided for protection to the industry at rates proposed by the Board. Only in case of magnesium chloride the period was to last upto 31st March, 1939. When the Act expired on 31st March, 1933 the duties were allowed to lapse. Chemicals, therefore, are at present subject only to revenue duties of 25 to 30 per cent. with preferential duties of 20 and 15 per cent. in some cases, on chemicals imported from United Kingdom and the British Colonies.* The case of Magnesium Chloride was examined by the Tariff Board in December, 1937 and as a result protection has been continued at a reduced rate and the period is extended to 31st March, 1946. In 1942-43 the Government further imposed an all-round customs surcharge of 20 per cent. on existing import tariff which meant a further advantage to this as to all industries facing competition of foreign imports.

The above survey of the Government's policy towards the heavy chemical industry is an indication of the great indifference she has always displayed towards our industrial development. The importance of chemical industry in a modern nation has already been pointed out. India

* Indian Fiscal Policy, Adarkar,

possesses, as the Tariff Board Report of 1928-29 very ably demonstrated, all the advantages required for the development of the industry. The handicap in the supply of sulphur that India suffers from is also not such as cannot be overcome.* It can be imported from abroad in times of peace as is done by a large majority of countries like Britain and Germany; and in times of war it can be replaced by synthetic ammonia for the preparation of explosives. Then sulphur can be produced at a somewhat higher cost, if it is thought so necessary. Therefore, the one hinderance in the way of the industry has been lack of support from the Government. It is right that in recent years expecially under impetus, the industry has got a fillip. But one very disquieting feature of this development is that the industry is dominated largely by a British concern, the Imperial Chemicals Ltd., to which the Government of India have handed over on lease for a long term of years the Dundot area in the Punjab where salt, limestone, coal and cheap hydro-electric power from Mandi hydro-electric mains would be available. Thus the development of Indian industry will be further thwarted by this foreign concern. Only a foreign Government can afford to so criminally neglect the claims of home industry and only a national Government would be in a position to right this and many similar wrongs.

Leather and Tanning Industry:—India is an important producer of hides and skins. The term 'hides' is used for the skins of cows and buffaloes and 'skins' for those of goats, sheep and other smaller animals in commercial terminology. Because of the religious susceptibilities of the Hindus in the matter of killing cows and buffaloes, hides are generally derived from dead cattle. Skins, however, come from goats and sheep that are killed for mutton. Naturally in quality the latter is superior to

* Other raw materials, as coal, salt and various metalliferous minerals, are obtainable in abundance in India.

the former. It is estimated that normally India produces 20 million cattle hides, 3.5 million buffalo hides, 22 milion goat and 3.5 million sheep skins a year.*

Before the last world war India exported large quantities of hides and skins to foreign countries, the former found large demand in Germany and Austria-Hungary in addition to United Kingdom, U.S.A. and Italy while the demand for the latter mostly came from U.S.A., U.K. and France being the other important importing countries. The situation has undergone much change thereafter. Of the total output of India's raw hides and skins it is estimated that from 50 to 75 per cent. of cattle hides and about 45 per cent. of goat and sheep skins are now locally tanned and the balance exported in raw condition.* The development of tanning industry which has made great strides since the 1914-18 war and the export duty on raw hides and skins imposed in 1919 (which was repealed afterwards) are the causes responsible for the reduction in exports.

Tanning industry carried on on indigenous lines has long existed in the country. Most of the hides and skins so tanned is locally consumed, but a particular variety of it, known in the international market as the East India tanned Kips and Calf skins, which is half-tanned leather of Madras and Bombay, is exported to the United Kingdom and from there to other countries. These are retanned and finished in importing countries for making shoe upper and other varieties of dressing leather.

The more important development is that of modern tanning first introduced by military authorities to manufacture superior leather for harness and other military requirements. Establishment of a Government Harness

*Indian Year Boo! 1942-43

and Saddlery Factory at Cawnpore in 1860 was a further step in this direction. Cawnpore is a very important centre of the industry, Bombay, Bangalore, Agra, Calcutta, and Madras being the other centres. Babul bark, and the South African wattal bark and its extract are the tanning materials used.

As noted already the last world-war gave stimulus to the industry. There took place a great increase in the production of East India tanned kips, as well as leather products of other sorts including boots for the army. Another outstanding feature in the field of modern tanning since the last war has been the development of chrome tanning which enables superior leather to be produced. A number of tanneries in Cawnpore, Calcutta, and Madras are engaged in the production of this superior type of leather. There are, however, several difficulties in the way of chrome-tanning in India, such as the highly technical processes requiring chemical knowledge and costly machinery. But Indian hides and skins are fit for this purpose and hence great development is possible.

The present war has again come as a boom to the industry. The demand has greatly increased to meet which extended machinery and a large labour force are now being employed.

A very important feature of modern tanning industry in India is that though so far as non-industrial demand for leather and shoes is concerned we are almost self-sufficient, in matter of industrial leathers we are far from this position. It is a fact that some progress has been made in the production of such industrial leather as belting leather, picking bands and roller skins etc., still much remains to be done. In case of industrial leather also here is much room for improvement in quality which is inferior to American and European products. Inferior quality of hides is one cause for this.

If the tanning and leather industry has to successfully grow in this country, its claim for state protection must be favourably considered. In this connection it would not be out of place to suggest that this protection should be extended in form of import duties on foreign products and not in that of export duties on raw hides and skins as was done by the Government in 1919 to protect the industry in the post-war period. Such an export duty would check our external trade in raw hides and skins which cannot be replaced by a corresponding amount of exports in tanned leather which are taxed in forign countries on their entry into them. It was the realisation of that fact that the export duty (15% in 1919) was condemned by the Fiscal Commission as wrong in principle. It was, therefore, reduced to 5% in 1923 and preference that was made in 1919 to the extent of 10% in favour of British empire was abolished. The duty was abolished from hides in 1934 and from skins in 1935.

Oil-milling industry:—It has already been noticed in the chapter on Agricultural products, that India is a large producer of a great variety of oil-seeds such as linseed, sesamum, rape and mustard, groundnut, coconut, castor, cotton seed, mawra etc. A large quantity of these oil seeds, though in different proportions, is, however, exported to foreign countries, and the oil-milling industry in the country is still not much developed.

The importance of having a well developed oil-milling industry is from more than one point of view. First, exporting oil-seeds in raw condition means a great economic loss as the country is deprived of the profits and wages of the manufacturing industry that otherwise would accrue to the people of our own country. Oil cakes that result from oil-pressing are a good source of cattle food as well as manure and this, therefore, is a further loss to the country resulting from oil-seeds exports. Lastly, vegetable, oils

are required for use in number of manufacturing industries as soap and glycerine and also for lubricating purposes. The waste and damage of the seed in transit from India to importing countries and the expenditure in freight are also serious considerations involving considerable loss. Hence the need for a well-developed oil-milling industry in the country is quite obvious.

In India a large quantity of oil-pressing is done by the old and indigenous process of the bullock and the 'ghani'. This system of oil-pressing is not efficient. A large percentage of oil is left in the cakes which makes them less useful for either cattle food or manuring. The quality of oil produced is also not good being highly coloured and impure and fetching low price. In recent years the country has developed oil-milling on modern lines—either there is a power plant or an hydraulic press or the elaborate oil mill with efficient equipment of oil-expellers and the like. Since the last war the oil-milling industry has received considerable attention. And the present war has given another great opportunity to the industry, the export trade in oil-seeds having declined due to the loss of foreign markets. There are certain difficulties that oil milling industry in India has to face. First, oil seeds are admitted duty free in foreign countries whereas oil and oil cakes are subjected to a tariff duty. Secondly freight on oil seeds is less than that on oils and oil cakes. Thirdly, the Indian cultivator has some prejudice against machine-made cakes as cattle food or manure. Then last of all the local demand for cakes is not sufficient to consume even all the cakes manufactured to-day. Expansion of home demand as well as foreign demand would give a great encouragement to the industry. The standardisation of oils and oil cakes will help the industry in finding out foreign markets. The industry so far has made good progress in the production of mustard oil, castor oil, groundnut oil and linseed oil. Private

enterprise combined with a sympathetic railway rates policy and necessary Government help would certainly succeed in placing the industry on a sound footing.

Paper Industry :—Hand-made paper which has been manufactured in India since very early times is another index of India's industrial supremacy in the past. In many parts of the country the industry still survives and the All-India Village Industries Association under the leadership of Gandhiji has done much to revive this industry as well, as many other indigenous ones.

But machine-made paper is only a modern phenomenon in India dating from 1870 in which year Bally Mills were started on the Bank of the Hoogly. This venture, however, did not succeed and was liquidated. In 1882 the well-known Titaghur Mills were established. There came into existence near about this time a few other Paper-mills also in up country towns, such as Lucknow, Poona, Raniganj, Bombay. The progress that the industry made up to the last world war was, however, slow; foreign competition being its main difficulty. The last war gave them the long awaited opportunity as the foreign supplies of paper were cut short. A new concern called the Naihati Mill was established by the Paper Pulp Company Ltd., on the banks of the Hoogly in 1918 for the production of pulp and paper from Bamboo. The Karnatak Paper Mills (1927) for making paper from paddy, straw, and bamboo, at Rajamundry, and the Punjab Paper Mills Company (1929) were other important concerns floated, the latter, however, went into liquidation after working for a short period of nine months. Shree Gopal Paper Mills and the big factory of the Rohtas Industries Ltd. are the two prominent mills recently started. There are at present 13 paper mills in the country operating 28 machines with a total production of nearly 90,000 tons. Another one-machine mill in Hyderabad-Deccan is nearing

completion. The quality of paper produced by Indian mills to-day is excepted as equal to that of most imported paper of the same class, and the range of qualities has also been extended which includes among others coloured banks and bonds, embossed covers and writings, imitation art and graft and tinted printings. India mills, however, do not produce newsprints whole of which is imported. Recent enquiries show that Kashmir and Tehri-Garhwal states can supply fir and spruce sufficient for the establishment of news print mill in each of the two states. The projects for establishing mills are under consideration and the abnormal rise in the cost of machinery and difficulties of importing them from abroad in the war time appear to be serious handicaps in the materialization of the plans. The same difficulties stand in the way of manufacturing wrapping paper from a kind of grass found in U.P., known as 'ulla' grass, which recent experiments at the Forest Institute have found fit for the purpose. The development in this line of industry would substitute much wrapping paper imported at present. The present war has given great impetus to the industry by increasing the demand for the home manufacture and removing the foreign competition. Imports of fine paper are practically stopped and Indian mills are working to their full capacity. Due to increased Government's war time demand, the industry, commerce, and the general public is experiencing much shortage of paper.

In the beginning our industry depended for its raw material on a kind of grass known as 'sabai' grass which grows abundantly in Northern India. Indian wood has not yet been used to make paper and wood-pulp is imported. For cheaper kinds of paper, rags, hemp, jute waste and wastepaper are used. In latter years 'sabai' grass as a raw material has yielded place to bamboo which is easily available in Bengal, Orissa, and South West India. Bamboo is expected to show good prospects

in future also. Hence the difficulty in the way of paper industry is not going to be that of raw-material. The real handicaps are: high cost of chemicals, heavy transport charges for coal, and severe foreign competition from Scandinavia, Germany, U.K. Austria, Japan and U.S.A. which disadvantage the war has, however, at least temporarily minimised or rather practically removed. The limited demand in India due to prevailing illiteracy and the lack of general industrialization of the country is a more fundamental difficulty in the way of the industry. Before, however, we discuss the future prospects of the industry, let us take up the question of protection to the industry.

When in the post-war years the industry had to again face the cut-throat competition of foreign paper, it applied for protection in 1924 and on the recommendations of the Tariff Board, which reported in 1925, the Bamboo Paper Industry (Protection) Act, 1925, was passed giving effect to the proposals of the Board. The Tariff Board had laid great emphasis on the development of the bamboo section and hence it recommended protection for it only. A uniform specific duty of one anna per pound on all writing and printing paper was imposed for a period of seven years. The Government of India, however, rejected the Board's recommendations for the grant of financial assistance to paper manufacturing concerns. In 1931 the Tariff Board again went into the question of protection to the industry and recommended its continuance to save the industry from imported wood-pulp whose prices had fallen considerably. The Board viewed this as a hinderance in the way of the development of bamboo paper industry in the country. The Bamboo Paper Industry (Protection) Act, 1932, was passed which was to remain in force upto 31st March, 1939. The old duty at the rate of one anna per pound was continued and a new duty of Rs. 45 per ton on wood pulp was further

imposed. These duties were subject to the additional surcharge of 25% imposed by the supplementary Indian Finance Act of 1931. By a notification of 25th June, 1938 the surcharge was removed by the Government. Finally, it was in 1937 that the Tariff Board again examined the claims of the industry to protection and reported that the withdrawal of protection would be disasterous to new mills, and cheaper imports of wood pulp, would force the grass paper mills to give up grass pulp and take to wood pulp for production of the finer qualities of paper. It therefore, reocmmended continuance of protection. The Government accepted it but not at the rates suggested by the Board nor it thought the continued use of grass pulp as good and hence as deserving protection. The Indian Tariff (second Amendment) Act of 1939 imposed an *ad valorem* duty of 25 per cent. or Rs. 30 per ton whichever is higher on imported pulp which would protect the bamboo pulp at the lower prices and not grass pulp at the higher, and reduced the protective duty on paper to 9 pies per lb. or 25 per cent. *ad valorem*. The period of protection was fixed at 3 instead of 7 years.

Coming to the future, it is a fact that the present war has given a great fillip to the industry and there is shortage of paper in the market, but with the cessation of war the situation is bound to undergo a change and foreigners would try to compete with the home producers. Even at present shortage of coal, chemicals and essential raw-materials has put obstacles in the way of the industry and production in 1942-43 has declined by 29 per cent. in comparison to the previous year. It is, therefore, highly necessary that taking advanatge of the present favourable position the industry should put its own house in order in matter of reduction of costs, accumulating reserves, adopting new methods of production, etc. Another requirement of the industry is that new lines of production must be chalked out as the market for the

protected varieties of paper does not afford any great chances of further expansion. Besides this it is also very necessary that the Government of India takes more interest in the development of the industry, *e.g.*, in the matter of conducting proper research to find out raw material for the industry in the vast forests of the country or in the matter of adopting an active policy of afforestation for the purpose. Similarly a helpful freight policy as well as power policy would be of great advantage in encouraging the 'bamboo' paper industry of the country. Protection should be limited not only to paper that is already manufactured but also to new lines so as to help their production. So far as raw material is concerned there can be no dearth of it in India which ranges from bamboo too jute and hemp waste, sugar-cane baggase, various grasses, rags and wastepaper. The importance of these raw materials increases all the more because mechanical wood-pulp is expected to exhaust in near future. Thus the prospects for the industry on a long run basis are bright provided required care and thought given to it.

Match Industry :—The rise of match industry in India is a very recent phenomenon in the industrial history of the country, the whole development having taken place after 1922 when the existing revenue duty was doubled to Rs. 1-8-0 per gross boxes. Before this time the only successful match factory working in the country was the Gujrat Islam Match Factory at Ahmedabad started in 1895. A very important event in the field of this industry has been its domination by the Swedish Match Company which is a combine of several Swedish Companies formed in 1917. It is a very powerful combine of international ramifications and it started its own factories in India also during 1924-26, thus getting the advantage of the high tariff imposed in 1922. The competition of the Swedish Match Company with the Indian match industry both from Swedish imports as

well as internal production by Swedish factories has been a constant menace to our national interests. And it was primarily to safeguard the Indian interest against the Swedish combine that the former made a demand for protecting the industry. The Tariff Board took the matter in hand in October, 1926 and reported in 1928. The Board recognised the need for protection on two grounds—the imports by Swedish Match Company on uneconomic prices and the existing prejudice against Indian matches. It, therefore, recommended that the existing revenue duty of Rs. 1-8-0 should be converted into a protective duty and in pursuance of these recommendations the Match Industry Protection Act, 1928, was passed which, in addition to the Rs. 1-8-0 duty, also converted the then existing import duties on undipped splints ($4\frac{1}{2}$ annas per lb.) and veneers (6 as. per lb.) into protective duties to make the protection effective. The supplementary budget of 1931 enhanced these duties by a surcharge of 25%. In 1934 again an excise duty on home production ranging from Re. 1 per gross of boxes to Rs. 2 per gross of boxes varying with the number of sticks but containing on an average not more than eighty was imposed and the rate on all other matches was fixed at 4 annas for every 1,440 matches or fraction thereof. The rates of customs duties were also revised so that the amount of protection to the industry may not be changed. These duties were made free from 1931 surcharge. There is no doubt that the measures of protection led to an enormous development of the industry. The imports of matches have considerably fallen and India has been almost self-sufficing in the manufacture of matches. But the chief purpose for which protection was asked for, that of protecting the Indian concerns against the Swedish ones, has not been fulfilled, and the Swedish Combine has brought the Indian match industry in its "vicious octopus-like grip." By following a policy of ruthless rate-war and expanding

its output capacity, the Swedish Company has made the position of Indian manufacturers very intolerable. And if the future of the Indian industry has really to be assured, it is essential that the Government of the country takes some effective step to protect the industry from such a throttling non-Indian competition. Because it must be remembered that otherwise the match industry in India has the advantage of a large home market, Indian labour has been proved to be not only cheap but also efficient and so far as raw-material is concerned a large number of species of trees in Indian forest is suitable for the manufacture of splints or match boxes. The existing supply of wood also can be augmented by plantation. That aspen wood has to be imported is also no difficulty because it is a peculiarity of the match industry that no country in which matches are made is self-supporting in regard to all or most of the raw materials required. Therefore, even at the risk of repetition, it must be asserted that the future of the industry wholly rests upon what the Government is prepared to do to extricate it out from the present entanglement into which foreign competition both from inside as well as outside has thrown it.

Glass Industry:—The Glass industry in India is an ancient one existing centuries before Christ. According to Sir Alfred Chatterton, the industry was well established in 16th century producing mainly bangles and small bottles though quality of the material was poor. Attempts to start the industry on modern lines were made in the nineties of the last century but all of them failed. During the period of Swadeshi movement also, a number of glass factories was established though only a few of them survived. It was only the last world war that gave an impetus to the industry. In its present stage the industry takes two different forms—(*i*) Indigenous cottage industry which though spread over several parts of the country is mostly concentrated round Firozabad and mainly pro-

duces cheap bangles. (*ii*) The factory industry is turning out better quality of bangles, lamp chimneys, globes, tumblers, jars, bottles etc. The chief centres of production being the United Provinces, (Allahabad and Naini), Calcutta, Bombay, Jubbulpore, Ambala and Lahore. The present war has given further encouragement to the industry and many new glass factories have been established in the U.P. whereas before the war only a quarter of the country's requirements was met by home production, now half of the requirements is met in this way. Production of glass tubes, surgical and laboratory requirements has shown marked increase . In 1938 the Government of the U.P. established a Glass Technology section under a Glass Technologist which has done much useful work in improving the industry and introducing better methods of production and new lines of manufacture. One natural consequence of the growth of glass industry in the country has been a fall in imports specially of cheaper varieties of lampware, table ware, bottles and phials. In the field of bangles for some years the competition of the Japanese 'reshri' bangles was somewhat severe, but the factory industry has successfully eliminated the Japanese imports also by producing better quality of bangles. Since the outbreak of the war Firozabad is in full control of the bangles market. In scientific glass ware and sheet and plate glass the foreign competition is important, while in 1938-39 the value of the glass-imports came to 125 lakhs, in 1940-41 it came down to 86 lakhs only. There were 101 glass factories operating in the country in 1942-43*. The importance of Japan as competitor in the foreign market had increased in later years, her share being 49.2 per cent. in 1939.

The question of protection to the industry was referred to the Tariff Board in October, 1931 which reported in 1932. The Board after a thorough examination of the

*Indian Year Book 1942-43.

whole problem from the various point of view as of raw materials, labour, and market recommended protection for the industry for a period of full ten years. Protective duties were suggested on sheet and plate glass, bangles, beads and false pearls, and glass and glass ware of other kinds. The Government of India did not announce its decision till 1935 when it announced that the industry did not deserve to be protected as there was an absence of an indigenous supply of soda-ash which is one of the raw materials for the industry. The Government, however, decided to grant a concession to the glass industry by way of rebate on the import duty of soda-ash. The whole of the duty was to be refunded in case of British or Colonial imports and the excess of over 10 per cent. *advalorem* in case of non-British imports used by Indian glass manufacturers. The concession was originally granted in June, 1935 for three years but since then it was further extended twice, each time for a period of two years.

The action of the Government in refusing protection on the one hand and granting rebates on imports of soda-ash on the other has been subjected to much justifiable criticism. The question of soda-ash was fully examined by the Board which laid down its conclusion in the matter in the most unambiguous terms in the following words. "We hold that the fact that the Indian glass industry is now dependent on imported soda-ash does not invalidate the claim to protection, especially when there is reasonable prospect that the manufacture of the material in India will be resumed almost immediately." After these words were written, the country has begun to produce soda ash the absence of which was not the result of the absence of any basic materials required for the production of soda-ash but of the non-existence of the alkali industry in India. It should be clear that in view of the fact that the Indian industry enjoyed advantages in respect of supplies of cheap sand, fuel, labour and extent of

market the refusal of the Government to protect the industry against the findings of an expert body of the Government itself and on the ground that another industry did not exist, was most condemnable. Secondly, the granting of rebate on the import duty on soda-ash is bound to act as a hinderance on the development of the soda-ash industry itself. The future of the glass industry, therefore, demands that the Government may examine the whole position anew and grant protection to the industry so that the gains which the industry has made in the present war may not only be preserved but also furthered. There is no doubt that given the necessary assistance from the Government, the industry has all the chances of a sound and bright development.

Cement Industry:—Though the manufacture of cement in our country dates back to the year 1904 when a local company in Madras began the work, but till the last world war the industry was practically undeveloped. It was only during 1912-13 that three more companies, one at Porebander in Kathiawar, another at Katni and the third at Bundi in Rajputana, were formed. The war and the post-war boom gave a great opportunity to the industry for development which was at a rapid pace. Several new companies were floated, production increased and imports registered a fall, though the fall was not very appreciable excepting the war period when imports were difficult. The total Indian production in 1914 was 1000 tons which increased to 2,64,000 tons in 1924, the corresponding figures for imports in the two years being 1,(6,000 tons and 1,24,000 tons respectively. This shows that there took place a great increase in the consumption of cement which was met by increased home production. The quality of Indian cement was quite good. This prosperity of the new industry was, however, checked in 1924 when it was faced with internal as well as external competition, the latter particularly from United

Kingdom. The industry naturally applied for protection on more than one ground. The industry was of national importance, it suffered from an unjustified prejudice from the home consumers, as also from foreign imports which stood in its way of increasing the output and reducing the cost as a result thereof, and lastly it was claimed that the industry satisfied all the conditions necessary for protection. The Board began the examination of the case in 1924 and submitted its report in 1925. It admitted that the industry had the natural advantage in respect of raw material as limestone, suitable clay, of labour—as the supply of labour was plentiful and cheap and the required skill can be acquired by Indian workers easily, and of market so far as the up-country market was concerned. It, however, recognized that half of the market lay in the two port towns of Bombay and Calcutta where the Indian producers were severely handicapped. Another difficulty of the industry was of fuel which was to be brought from distance which made its cost high. The Board also emphasised that the industry suffered from excess capacity and its need was a lower price to encourage consumption which protective duty would fail to do as price was regulated as a result of internal competition. The Board, therefore, did not think the imposition of import duties proper and recommended a system of bounties on cement consigned to the ports or to railway stations within a specified radius of these ports provided the payment of bounties did not lead to a reduction in the price of Indian Cement in relation to the price of imported cement. The Government, however, refused to adopt these recommendations on the ground that the difficulty of the industry was internal. Thus the whole question came to an end and the industry was left in a gaping condition.

The cut-throat competition amongst the home producers could not continue ultimately and after preliminary

attempts at a joint control dating from 1926, a great step was taken in 1935 when mainly due to the efforts of Sir F. E. Dinshaw the cement merger of 10 principal companies came into existence under the name the Associated Cement Companies Ltd. This has improved the technical and commercial organization of the industry. But the opening of new works of the Dalmia Cement Ltd. in Sind and other provinces has again started a war of competition. War time increases in the price of steel and the slackening of building activities have also adversely affected the demand for cement in the country. But on the other hand demand for outside markets has arisen and there also exists a promising field for the use of cement outside the building. The most important factor in the development of cement industry however lies in the ceasing of internal competition. On the whole, however, the industry has achieved continuous progress since 1930. The imports in 1938-39 were of 10 lacks of rupees only which came down to 5 lakhs in 1940-41. The future of the industry depends upon a progressive programme of public works and the development of other industries in the country both of which pre-suppose active co-operation of the government. The country has become almost self-supporting in respect of her cement requirements and increase in demand both outside and inside the country is necessary for further expansion of the industry on sound and rational lines.

CHAPTER XXI.

COTTAGE INDUSTRIES.

From times immemorial India has been a land of cottage industries and agriculture. Besides rural industries such as oil pressing, sugar and Gur making, etc., there were prosperous urban handicrafts producing fine textiles, and other luxuries for the courts, the rich classes and for export. Cotton weaving, silk manufactures, embroidery, woollen shawls, carpet, blankets, and pattu etc. metal working, stone carving, enamelled jewellery, ivory carving and lacquer work, manufactures of arms and shields, carpentry and blacksmithy etc. were organised in workshops as well as in the artisans homes. The artisans were a most prosperous class in India and their skill was high.

But with the advent of British the cottage industries in India began to decline. The following were the main reasons of their decline in India :—

(1) *The absence of court patronage* :—The Moghul Emperors and their nobles with a large army of courtiers provided the main demand of these art and luxury industries and therefore with the breaking up of the Moghul Empire and establishment of British power the patronage of the courts to these industries vanished.

(2) *Adverse foreign influence* :—The new class of educated Government employees was very much affected by the tastes, dress, and manners of living of the rulers and therefore they preferred imported machine made goods to home made articles. The disarming of the population led to the decay of arms and weapon industry. There was still some demand from Europeans which helped to arrest their rapid decay. But the disappearance of the courts was a great shock to these industries the adverse affect of which could not be mitigated by this small foreign demand.

The Policy of East India Company :—As has been discussed in details in the chapter on Industries the East India Company under the pressure of British Parliament actively worked for the encouragement of British imports at the cost of Indian industries.

Foreign Competition :—A very important cause of the decline of these handicrafts was the Industrial Revolution in England and the commercial revolution caused by mechanical transport. Invention of machinery, and steam engine caused the Industrial revolution in England which led to the factory development. India was opened up by rapid construction of railways, roads, and post office and telegraph systems. Under these circumstances Indian handicrafts could not face the onslaught of British factories unaided by the State. But the State was determined not to protect them from the unjust competition of the imported machine made articles.

'Laissez Faire' policy of the Indian Government :—While the Indian handicrafts were being attacked from all sides and their very existence was at stake the Government adopted an attitude of indifference and of direct apathy towards them. Instead of helping the struggling industries they encouraged the imported goods to capture the home market. No duties were levied to protect the home industries instead free trade policy was adopted. The result was that the handicrafts declined making the Indian Economic Development one-sided, that is the whole country was turned into an agricultural one.

Vitality of Cottage Industries :—There is no doubt that the cottage industries have declined, the artisans once very prosperous are living a most miserable life, most of them had to fall back upon agriculture and factories to earn their living, unemployment among them has been acute yet they have shown marvellous capacity of surviving against such heavy odds. Even now the

cottage industries in India are not dead. Unorganised, old fashioned, devoid of all state assistance and attention, labouring under a crushing burden of indebtedness, dependent on the dealer for marketing his produce who exploits him to the utmost the artisan still persists and carries on his trade. The great vitality shown by some of the cottage industries attracted the attention of the people and the Government alike and recently there has been a change of outlook. Economists, and Government have begun to feel that the cottage industries if protected, developed and properly organised can play an important roll in the economic structure of this country. This is a happy sign that the importance of cottage industries is being recognised so that in the future economic planning they expect a better treatment at the hands of the state.

Classes of Cottage Industries :—In general there are four classes of cottage industries (1) Those that require a high degree of skill as carving, lacquer and inlaid work, embroidery, ornament making, etc. These crafts are comparatively safe as machines cannot imitate the skill of the human hand. But these crafts cannot give employment to a large number of artisans as the demand of these articles is not very wide. (2) The common handicrafts requiring less skill such as cotton, silk and wool spinning, and weaving, carpet making, carpentry, blacksmithy, rope making and metal works etc. These industries need re-organisation on sound economic lines then only they can flourish. (3) Small scale or home industries as soap making, oil pressing, pottery, cement work requiring little capital and little specialised skill. (4) Cottage industries subsidiary to agriculture. (See Chapter on Subsidiary Occupations to Agriculture).

Main Cottage Industries—Weaving :—Handloom weaving is India's oldest and most common cottage industry. Next to food comes man's need for clothing.

We are often told that the day of handloom has passed, the mills have come to take its place and they have no chance to survive against the competition of mills. The critics of the handloom forget that the handloom weaving is still an important branch of the Indian Textile Industry. In 1940 Handloom weaving supplied 160 crores of yards of cloth or nearly 30 per cent. of nations total output. Moreover handloom has shown marvellous tenacity such as is found in no other country in the world. Not only that, it has actually recorded a considerable increase in output during the last 40 years. The following figures will be of interest in the matter.

Output

(in crores of yard).

1900	.. 70		
1905	.. 85	1925	.. 119
1910	.. 107	1930	.. 132
1915	.. 105	1935	.. 150
1920	.. 86	1940	.. 160

The industry maintains partially or wholly several millions of persons. An estimate puts the figure at 10 millions. The total number of handlooms making cotton goods in the country excluding Burma is placed at 1½ millions in British India and though reliable figures of Native States are not known yet they can safely be put at half a million on a very conservative estimate. Details for provinces being as under:—

(in thousands).

Madras	.. 250	Punjab	.. 242
Bengal	.. 100	Bihar and Orissa	.. 180
Bombay	.. 110	C.P.	.. 73
U.P.	.. 162	Assam	.. 421

Thus in point of looms, the number of persons they give employment to, and their territorial distribution it is

evident that handloom weaving is even more a national industry than the mill section of the cotton textile industry and as such it deserves support and encouragement.

But the continued existence of the handloom weaving industry and its record of increasing output should not be considered a sign of prosperity. The Textile Tariff Board rightly pointed out in 1932 "Since the handloom weaver cannot regulate his production according to the state of the market without risking starvation for himself and his family, the true criterion for judging the position of the handloom weaving industry is not the proportion of the quantity of cloth woven on handlooms to the total production but the wages earned by handloom weavers. In fact the handloom weaver's wage is now tending to reach that of the unskilled labourer. Everywhere the handloom weaver complains of competition, and inability to dispose of its produce at an economic level. There is no doubt that handloom weaving industry in India is a distressed industry and as such stands in need of public and state support.

The Textile Tariff Board of 1932-33 also stated that the handloom weavers could not take advantage of the protective tariff and needed state aid directly. They recommended a special grant specially because a duty had been imposed on yarn imported and thus the handloom weaver was made to pay a high price for his yarn. This duty on imported yarn encouraged mill spinning industry at the cost of handloom weaving. The Government of India accepted the recommendations and set apart a sum of Rs. 5 lakhs per year for helping the handloom weaving industry. The grant was limited to 5 years. The Government of India invited the Provincial Governments to place before them schemes for developing handloom industry in their provinces. The majority of the Provincial Departments of Industries submitted their marketing

schemes based entirely on co-operative principles. These schemes as drawn up and worked by different provinces differ widely both in constitution and marketing organisation.

In Bengal, Bombay, and United Provinces the goods are woven by a group of primary weavers societies called either Co-operative Weavers Unions, District Associations or Stores. These are under the control of the Registrar of Co-operative Societies. Raw material, better appliances are supplied to the weavers. Expert advice and guidance is provided by the marketing officers and their staff responsible to the Director of Industries. In Madras and Central Provinces the primary weavers societies sell their output with the help of marketing agents appointed by the Provincial Marketing Associations. In Bihar, Orissa and Assam the Departments of Industries take greater responsibility in marketing schemes as they find the necessary capital, get their goods manufactured by Societies and market the same. Besides this help given by the Government in every province the co-operative departments had already established weaving co-operative societies to organise handloom weaving industry.

In United Provinces there is a Provincial Handloom Emporium at Lucknow with which stores at Amroha, Etawah, Mau, Sandila, Bara Banki and Tanda are affiliated. These stores are under a technical superivisor and a store keeper cum-dyer. Raw materials are supplied to the weavers and their finished products are sold through the emporium. Improved appliances are supplied to the societies of weavers and to individuals either free or on hire purchase system. Each centre is encouraged to specialise in one or two lines of manufactures. The handloom emporium supplies raw material, secures orders, gets goods manufactured. New designs are introduced by it and improve appliances are popularised besides marketing the finished articles.

The All-India Spinners Association under the guidance of Mahatma Gandhi has given power-drive to the development of handloom industry. There is a net work of Gandhi Ashrams and Khaddar Bhandars spread over the whole country. There are production centres at places where colonies of weavers are found and the sale of finished articles is carried on through a large number of branches of the All-India Spinners Association (Khaddar Bhandars). The All-India Spinners Association has tried to develop the technique and has done great service to the industry by improving the charkha and other implements. It has introduced new and upto date designs. Their printing has been very superior indeed. But the All-India Spinners Association only manufactures hand spunned and hand woven khaddar. It prohibits the use of mill made yarn.

Mahatma Ghandi claims that handloom industry can easily be adopted by every body because it requires little capital, and raw material is cheaply and abundantly available in the country. The implements can be manufactured locally, and does not require much training and education. There is a wide home market, it is free from the vagaries of the climate. It prevents the disintegration of the family and evils arising out of concentration of workers in industrial centres. It provides an equitable distribution of wealth among the different grades of workers in the industry. Above all the rehabilitation of handloom industry will give stimulus to many allied village industries. The Khaddar movement under the leadership of Mahatma Gandhi has no doubt spread far and wide in the country. All-India Spinners Association gives employment to several lakhs of spinners and weavers in different parts of the country. The Association was the pioneer in adopting minimum wage policy in India, before it was considered at all by any labour committee or commission. The standard fixed by the Associa-

tion is 8 annas for 8 hours of work done by the spinners.

But the coarse quality of khadi and the taste of the people for fine fabrics and comparatively higher costs are the factors which go against it. It is said that the hand-spun yarn is much less regular in size, less strong and more expensive than factory spun yarn. This is why hand spinning industry practically died out in India and the majority of handloom weavers in India use mill made yarn. It is due to special efforts of the All-India Spinners Association that hand spinning has again been started in the neighbourhood of khadi producing centres.

Some of the economists are of the opinion that these attempts to bolster up an out of date industry cannot succeed against the competition of cheap, and durable goods of mills. The propagandist of khadi is fully aware of these drawbacks. But he is not at all afraid of mill made cloth. The object of the Khadi movement is to induce every individual and his family members to spin yarn on charkha or takli in their leisure period when they are not employed in their main occupation and get it woven into cloth by the local weavers for their own use. Specially it is most suitable for agriculturists. In their period of enforced idleness they themselves and their family-members can gin, card and spin their own cotton and get it woven by the local weaver for their family use. The problem of competition, coarseness and cost does not arise. It is on this basis that the Khadi movement has been started and it will take some time to achieve this object.

However, there may be certain misgivings about the possibility of charkha and hand spinning but as far as handloom weaving industry is considered most people are are of the opinion that the industry deserves support and if properly organised it can still flourish in the country and give employment to a very large number of people.

Existing Condition of Handloom Industry:— The handloom weavers are in perpetual debt to Karkhanadars, dealers, in cloth or other money lenders and Sawkars. In most cases the creditors are also the suppliers of yarn and they also purchase the cloth of the weaver. In such a case the weaver is not free to sell his cloth to any other buyer. He is reduced to the position of a wage earner and receives very low wages. In other cases he has to pay a very high price for credit he gets from the money-lender. He is often the producer and the seller combined and usually he spends more time in finding sale for his finished goods than even in producing them unless he has a middleman to buy his finished products and he is prepared to accept any price which is offered. There is no continuity of employment and there is no quick sale of finished goods. Lack of certainty of employment places him at the mercy of the sowkar who are often the middlemen and who exploit him.

Inefficient method of manufacturing:—The weaver knows the art but he weaves out of date old patterns and designs which are no more in demand. The weavers do not produce the modern designs. In fact he cannot produce them unless he is given the required training and there is proper arrangement to continuously evolve new and modern designs. His tools and implements are old fashioned and therefore his efficiency is less and cost of weaving is higher. In order to put Handloom Industry on proper basis it is necessary that cheap and more efficient looms and other implements are invented, manufactured on a large scale, and popularised among them.

Defective marketing:—It has been pointed out that firstly on account of his indebtedness, secondly on account of his small scale production, and thirdly on account of his ignorance of the art of selling he falls in the grip of the

middleman who alone can market his goods and who exploits him to the utmost. If he himself sells his cloth the time taken makes it less worthwhile. Therefore it is necessary to set up marketing organisations for weavers on a co-operative basis. Not only marketing organisation has to be set up but experts have to be appointed who should study the market tendencies and advice the weavers societies regarding the kind of cloth to be prepared by them.

In short credit, technical improvement, and marketing facilities are the crying needs of the handloom industry and they can easily be secured by organising co-operative weavers societies, and federating them to a Provincial handloom weavers association for marketing, and technical advice purposes.

Organisation of Weavers Societies:—Primary weavers societies should be set up in those villages and towns where a sufficiently large number of weavers are found in the locality. The society should supply them yarn, and other necessary raw material for cash or on credit, and instruct what kind of cloth should be manufactured. The society shall collect the cloth from the weavers. These societies may be federated into a Provincial Weavers Association. The Association will have three departments manned by experts. (1) Technical department which will evolve new modern designs and solve all the technical difficulties of the handloom industry and give technical advice to the weavers societies. With the help of a few travelling instructors the department will train the weavers in weaving modern designs and adopt up-to-date methods of weaving. (2) Department of Engineering which should invent a better, cheap and efficient loom and other implements, get them manufactured on a large scale and popularise them through the weavers societies on a hire purchase system. (3) Marketing Department which will have to set up plants

for carrying on certain finishing processes without which decent finish cannot be given to the cloth and arrange for marketing of the finished goods by establishing sales depots, securing orders, advertising, canvassing and carrying on all related activities. It is by these methods that the handloom weaving industry can be made prosperous and flourishing.

Handloom versus Power Loom:—But more will have to be done in order to put handloom weaving industry on a prosperous footing. The State should give its helping hand to the industry and protect the industry against unjust competition of the power looms. So far the Government in India criminally neglected the interests of the poor handloom weaver who had to face the onslaught of the textile factories single-handed. Even the Indian Press and Platform did not take notice of this injustice while they were clamouring at their top voice for protection to the cotton spinning and weaving factory industry in India, they forgot to mention the plight of the poor handloom weaver and the need of his being protected against the textile mills.

The tariff measures adopted by the Central Government have on the one hand fostered the development of the cotton mill industry, and on the other, adversely affected the interests of the handloom weavers. The Excise duty on mill cloth which was levied for the first time in 1896 offered some protection to the handloom weavers against mill competition was abolished for very good reasons in 1926 but no simultaneous protection was granted to the handloom weavers. Later on at the recommendations of the Textile Tariff Board and united wish of the Central Assembly, the Textile Industry was given substantial protection by levying higher duties on imported cloth. Not only protection was granted to the mill weaving industry but spinning mills were also granted

protection by levying a duty on imported yarn at the rate of $1\frac{1}{2}$ anna per lb. or 5 per cent. *ad valorem* whichever was higher. The duty was increased to $1\frac{7}{8}$ annas per lb. or $6\frac{1}{2}$ per cent. whichever was higher for a short period 1931 to 1934. Although it has been reduced to $1\frac{1}{4}$ annas per lb. or 5 per cent. *ad valorem*, it enables the local mills to raise appreciably the prices of yarn sold to handloom weavers. At the present market rates this specific duty covers about 20 to 25 per cent. of the cost of the coarse yarn.

It was largely as a result of this tariff policy of the Government of India that the cotton mills could increase their output of cloth by more than ten times during the last forty years to a corresponding increase of only 75 per cent. in handloom cloth. The effect on hand weaving of these tariffs, imposed exclusively for the benefit of the textile industry calls for an early redress, for without a change in the present policy of the Government no substantial relief can come to the hand weavers.

The Government of India took the initiative at last and brought this question of conflicting claims of handlooms and mills before the Industrial Conference at Lucknow. In their circular letter to the Provincial Governments and Mill-owners Association inviting their views on the subject, the Government of India mentioned, six suggestions they had received which are as under:—

(1) Excise duty on mill cloth.
(2) Terminal tax on mill products.
(3) Restriction of mill output by prohibiting mills from producing certain classes of cloth.
(4) Cess on mill products.
(5) Reduction of duty on yarn.
(6) Fixation of quota and of particular counts between the handloom industry and the mill industry.

The Government of India has appointed Facts Finding Committee to enquire into the question of helping the handloom industry at the suggestion of Delhi conference. It will be better if cess is levied on mill cloth and the proceeds are utilised for the purpose of helping the handloom industry. Moreover certain classes of cloth should be made the monopoly of handloom weavers and mills should be prohibited from manufacturing the same or quotas may be fixed. But any action taken by the Government to resolve the conflicting claims of these two branches of the textile industry should not apply only to Indian mills but also to the imported cloth and also to the textile mills in Indian States. Anyhow the Mill Industry should under no circumstances be allowed to kill the handloom industry, bring misery and starvation into countless homes of India and filling the pockets of Indian capitalists.

Weavers' Conservatism and his poverty:—The weaver is generally very conservative and therefore it is difficult to organise him for a common purpose. They are as a rule victims of three evils—debt, drink and disease. These evils are demoralising the community and as long as the load of debt remains any attempt to improve their lot will fail. Drink is ruining them and saps their vitality. It is only by adopting debt relief measures and organising the industry on lines mentioned above that their economic condition can be removed. As far as drink habit and conservatism is concerned it will need education and propaganda.

The Silk Industry:—The Silk industry gives occupation to a considerable number of population in our villages. Those who are engaged in it may be divided into four classes. (1) Mulberry growers. (2) Cacoon rearers. (3) Carders and spinners. (4) Weavers. The first two can also be practised as subsidiary occupation for agriculturists as they do not require much skill. In France and

Japan silk worm rearing is a very important subsidiary and domestic occupation.

The Indian silk is of an inferior quality and therefore it fetches a lower price. The silk worm has deteriorated, there are various diseases which attack both the mulberry leaves and the insects and the silk worm rearing is carried on on unscientific lines. Better cocoons should be introduced, improved methods of worm rearing should be found out and propagated. In this connection the Kashmir and Mysore States have done the pioneering work by appointing foreign experts to evolve improved silk worm rearing methods and organise the industry in their territories. Besides these two States Silk worm rearing is extensively carried on in Bengal, Assam and certain parts of Bihar.

After cocoons have been collected filature process (heating and steaming) is carried on and then the cocoons are reeled or spinned. The filature process and the reeling process also needs great improvement. All these defects go to lower down the price of Indian silk in the market.

The silk handloom weaving industry was once a very flourishing industry and the workmanship of silk weavers was of a high order. But of late the silk weaver is also full of sorrow. He is also in the grip of the money-lender and the middleman. Silk weaving means greater investment in purchasing silk specially because the weaver does not find it worth while to weave unless there is enough silk for ten pieces (thans) at a time owing to certain complicated processes invovled in silk weaving. They cannot afford to invest so much money in advance. The mahajan advances the money at a high rate of interest and also assures for himself the sale of all the pieces at cost price. Moreoften he advances the thread and when the cloth has been woven wages for weaving are paid at a low price. Thus

the weaver is exploited to the utmost. Silk weavers are at the mercy of mahajans or Karkhanadars for credit, of raw material and for marketing. Unless credit and raw material supply on the one hand and marketing on the other is organised on co-operative basis there is no chance of improvement. The industry is concentrated in certain centres and not scattered and therefore it can easily be organised.

Woollen Industry :—Sheep rearing industry can be taken up as a subsidiary occupation for agriculturists. But the Indian sheep produces very inferior wool and needs improvement. Handloom industry is very important and is scattered all over the country and specially in those areas where wool is produced specially in Kashmir, certain parts of Central India and Rajputana and the Himalayan region. With the exception of Kashmir the industry satisfies a local demand. Mostly rough cloth, patthu, and blankets are manufactured. The All-India Spinners Assocation has tried to develop a woollen industry in Kashmir. Besides woollen cloth carpet and shawl industry flourishes in certain parts of India specially in Kashmir and Punjab. By improving the breed of the sheep and organisation the industry can be made a very flourishing and prosperous one.

Oil Pressing :—It is an old industry prevalent in the villages from times immemorial. Recently the industry in facing the competition of mill made oil but still it is surviving in the villages because the consumers prefer kolhu or Ghani made oil and slightly higher prices are paid for it in comparison to mill made oil. The All-India Village Industries Association and the Rural Development Departments in various provinces are trying to revive and develop this industry.

This industry just like others needs reorientation. The oil man is a very important member of the village

community, oil being used mostly for consumption purpose and very little for lighting purposes. The Ghani or the indigenous mill consists of a hollow wooden block buried very deeply in the ground. The Ghani needs great improvement so that a larger percentage of oil may be extracted from oil seeds and the strain on bullock power may be less. The All-India Village Industries Association has improved the Ghani with a view to eliminate the dust and dirt which creeps into the oil on account of the oil pipe being lower. At Maganwadi a trench is dug to walk for the bullock so that it is lower than the pipe line. Oil industry in fact occupies a very important place in rural economy and the provincial Governments have tried to improve it by putting up several demonstration units and by subsidizing the use of improved types of mills.

The prime need of the oil pressing industry is the improvement in the Ghani so that more oil may be extracted at low cost. Cheap and improved pressing mills or Ghani should be invented and made popular in the villages. The mill or Ghani should be such which will not put greater strain on bullock. If cheap electricity is generated and supplied in the villages the industry can very well compete with mill made oil.

The chief oil seeds crushed are the mustard, rape, groundnut, and cotton seed. The better quality of oil and low cost of production are responsible for the existence of the industry. India is one of the largest producers of oil seed in the world and exports a large quantity to foreign countries. There is thus a great possibility of developing the industry. This should go along with the development of allied industries such as soap-making etc. which will give employment of large number of population in rural areas and leave enough oil cake for cattle and manure purposes.

Tanning Industry:—Tanning industry can be profitably carried on in the villages by the low castes like chamars, sweepers etc. India has the largest cattle population in the world. The enormous animal population of the country provides an extremely large quantity of hides and skins. But the tanning industry is carried on in an unscientific and unorganised manner. The village chamars carry on the tanning of the leather in their traditionally wasteful method without the aid of modern appliances and chemicals. This is why India mostly exports raw hides and skins to foreign countries to be tanned properly. The result is that the quality of leather produced by the village chamar is very inferior and the village chamars manufacture out of such leather old fashioned crude shoes, water-bag, harness and saddle etc. for local consumption. There is sufficient tanning material–myrobolan, babul and Turwad bark in India, the raw material supply being enormous and the market ready at hand, the scope of the industry is enormous. The prime need of the industry is to improve the defective method of tanning prevalent in the country and to introduce it among the tanners so that this important industry may be carried on on scientific lines. The All-India Village Industries Association and the Industries Department in different provinces are paying attention to this important matter.

Paddy Husking:—The All-India Village Industries Association has been trying to introduce the hand pounding of rice in the country. The Association has introduced an improved chakki made of babul wood which pounds between 40 to 60 lbs. of paddy an hour and sells for Rs. 4-8-0 only. The Association carries on a regular propaganda for the use of hand pounded rice by the villagers so that they may have some life-giving elements in their food. The hand pounded rice is more nourishing and acts as a preventive against diseases like beri-beri on account of its richness in proteins, fats and minerals of which mill

rice is totally devoid. The industry can prove a valuable subsidiary occupation to the agriculturists as well.

Gur Making:—Gur making in an old industry in our villages and is carried on in those parts where sugar-cane cultivation is carried on. The All-India Village Industries Association has also been carrying on propaganda for the use of gur in place of refined sugar as it is more useful for health. In the United Provinces nearly half of cane produced is turned into gur. The U.P. Government has made commendable efforts to encourage and develop gur making so that the cultivator may get more employment and better prices. A large number of gur demonstrators have been trained at Government expense whose business it is to introduce improved types of crushers, to demonstrate the use of suitable chemicals for clarifying the juice and to help the construction of improved types of furnaces to ensure quick boiling and economy in fuel consumption. The demonstrators train local honorary workers who assist in propagating improved methods of manufacture. Improved type of crushers have been introduced. The improved type of crushers produce 7 per cent. more juice than the old type which is a direct gain to the cultivator and the gur manufactured by improved methods fetches a better price for the gur and cost of production is less. Gur making can be introduced as a subsidiary occupation to agriculture as it will give employment to the cane cultivators. The All-India Village Industries Association is also trying to introduce improved method of manufacturing gur and creating greater demand of gur in the country.

Sugar making:—Kharsari Sugar is manufactured in all those provinces where sugar-cane is cultivated. But the industry is carried on on fairly large scale and needs more capital. Experiments have been made to produce a simplified cheap centrifugal machine at a small cost to

enable the cultivators to manufacture sugar. If such a cheap centrifugal machine can be invented sugar manufacturing can be carried on as a cottage industry in the villagers by well to do cultivators and petty landlords.

Pottery :—The village potter plays an important part in village economy. He is poorly paid but the articles he turns out are necessary for every household. Surahis, waterjars, pitchers, handis, cups, glasses, dishes cheelams, etc. are daily used in every house in India. Besides toys and tiles are also produced and have fairly a large demand on festivals. But the village potter does not produce China clay wares which are mostly imported or produced by large scale pottery works. There is much scope for the improvement of this industry on this line but so far it is totally neglected and village potter lives a miserable existence.

Carpentry :—The carpenter has an important place in the economy of the village. Plough and other agricultural implements, carts, doors and windows as well as cots and other household goods are manufactured by him. In urban centres better artisans employ himself in making modern type of doors, windows, drawing room-furniture, etc. There is no fear of competition to this cottage industry but it needs introduction of better implements and better and improved designs and patterns toys of wood are manufactured in ce tain places like Benares, etc. but this industry needs development Country imports toys from foreign countries and if this industry can be developed there is a great scope for it.

Metal work :—The blacksmith is also an important village artisan. He makes agricultural implements and household utensils. But very few in urban areas manufacture locks, knives and scissors etc. It is in this direction that industry needs improvement.

Besides blacksmith bell metal and brasswares manufacturing is an important industry carried on in different places all over India. This industry is in the hands of karkhanadars who employ a large number of artisans and manufacture on a large scale.

A brief description has been given above of the important cottage industries carried on in India. Below is given a comprehensive list of the cottage industries and handicrafts which can be developed in the country.

Metal works.—Smithing, agricultural tools, and machinery.

Manufacture of metal vessels.—Copper, brass and aluminium, hand spinning and weaving, cotton ginning, and silk-reeling.

Carpets and blanket making.

Flour milling, rice milling, oil pressing.

Food products, fruit canning, drinks, and aerated waters.

Cigarettes and bidis.

Brick and tile works.

Furniture.—Chairs, tables, benches, boxes, etc.

Pottery, mat making, basket and rope making.
Shoe-making
Toys
Vegetable dyes, paints and ink etc.
Pencil manufacture
Buttons
Soaps
Glass works,—bangles etc.
Enamelled ware
Cloth printing
Book-binding
House building on modern lines.

India is a country where the small-scale industries are bound to play a very important part in the national economy and therefore these industries should be properly developed and organised.

Difficulties of the Cottage Industries :—Although the difficulties and problems of different cottage industries are peculiar to them yet there are certain common difficulties and problems which they have to face alike. The village and cottage industries are at present labouring under several handicaps the chief of which are those concerning finance, marketing, organisation, and technical improvement.

In fact lack of credit is responsible for much of the misery of the artisan class in India. Many cottage industries in India have deteriorated for lack of cheap credit and grim poverty and indebtedness of the artisans. The artisans usually take an advance of money or raw-material and manufacture for order. As they possess no capital of their own they do not produce for stock and cannot effect sales in open market. This causes a lack of steady supply and of the right type of materials. Most of them are deep in debt and therefore are compelled to work for their creditors, who for the sake of the profits do not care for the quality and designs and encourage the production of cheap and ordinary articles which may yield higher profit. This method of financing leads to the payment of higher prices for raw-materials and to higher interest but to low prices for the finished articles. The Central Banking Enquiry Committee has correctly stated the causes of this method of financing. Lack of capital, uncertainty about marketing of manufactured articles, unorganised nature of the industries, absence of uniformity of quality in the raw material, and in the workmanship, need for co-ordinating specialised functions in such industries, lengthy technical processes in some industries, inability of a small artisan to

lock up his capital for long, and the seasonal nature of some industries and the facilities afforded by the middlemen to keep the artisan going during the slack season as well are some of the causes which are responsible for his method of finance. The problem of financing can only be solved by establishing co-operative societies for artisans. So far co-operative societies of the artisan did not work satisfactorily. Failure of these societies is partly due to extreme conservatism, ignorance and unthrifty habits of the artisan class and mainly due to the fact that only, by providing capital the societies cannot function successfully unless they combine marketing of the finished produce and organisation of the industry as well. Because due to old and out of date methods of manufacturing and defective marketing the artisan is not in a position to hold out and survive the competition of mill articles.

The financial needs of the cottage industries mainly consist of the purchase of raw materials, working expenses, and acommodation between the production and the sale of the products. At present the main financial agencies are the money-lenders, karkhanadars, merchant dealers, and to some extent co-operative societies and the Government also finances them. The co-operative societies for artisans should be established in large numbers. They should supply the credit, raw-material and improved implements for cash or on credit, technical advice, and take over the finished produce for sale.

As regards marketing difficulties the lack of a central trading organisation on a provincial and on a national basis has been a chief defect of cottage industries. Lack of suitable marketing organisation and mutual co-operation, and isolation lead to the exploitation of these industries by the middlemen. Therefore marketing should also be organised on co-operative lines. The primary co-operative societies for the artisans should be

affliated to a Provincial Association for all purposes. The Provincial Association will have a full fledged marketing department with an expert at the head. The artisans may be instructed through their societies as to the kind and quality of articles to be manufactured. The Provincial Association may establish a chain of stores in important centres, through which the goods of the societies may be sold. By advertisement, propaganda, and canvassing the Association can create the demand for such produce of the cottage industries. Such Provincial Associations may arrange the sale of their goods through each other's stores by joint understanding and co-operation. It is by setting up such an all-India organisation that that marketing facilities can be obtained. Such Provincial Associations can also purchase implements and raw material wholesale, and supply them to their affiliated societies.

The various Provincial Governments during recent years have made attempts to remove the defect of marketing by starting Arts and Crafts Emporium. Such Provincial Emporiums have been started at the capital centres of the provinces to popularise the products of the cottage industries. The Home Industries Department of Mysore State has succeeded remarkably in popular'sing the village products. All the Provincial Governments have helped these industries by propaganda, demonstration, and technical help to some extent. But the need of these industries is to be helped continuously for some time in a sustained and planned manner. It will be better if the Provincial Governments give financial help to the Provincial Associations and give them the technical assistance by making available the services of their technical experts to them. There is the need of a Central Agency as well which may advise on improvements and reconstruction of processes of village and cottage industries to introduce and apply modern mechanical implements and tools, evolve better tools, small machines, and implements which may increase the

efficiency of the artisans, get them manufactured on a large scale, and to experiment and introduce improved designs and to collect and diffuse information on commercial subjects like market, intelligence, competition against mill made articles and foreign goods, methods of organisation, and representing the needs and the interest of the cottage and village industries to the Provincial and the Central Governments. All these functions can be carried on by the Provincial Associations and their All-India organisation.

As to technical assistance which is very badly required by the artisan, the Government can play a very important part in organising technical training and education by starting technical schools in suitable centres and by giving industrial bias to the primary and secondary education. The artisan must be educated and trained in his handicraft. The industries departments in all provinces maintain a few industrial and vocational schools and technical institutes and some local bodies and non-official agencies also run such institutions. But they are totally insufficient; more such institutions must be started to train the cottage worker. But of greater urgency is the need of giving hints to the artisans who otherwise know their job and cannot take advantage of these institutions in the modern methods of manufacturing technique, designs and patterns. This can be easily arranged by sending peripatetic instructors to the villages and towns where artisans live in sufficiently large numbers. This work can also be better organised through the agency of the Provincial Association and its affliated Societies. The Industries department may place the services of such instructors at the disposal of the Provincial Association and the Association may arrange the programme of the instructor at different primary societies.

The United Provinces Cottage Industries Committee have recommended the creation of cottage industries

board to advise about the intensive development of cottage industries and a central organisation for marketing products. The board would undertake the survey of selected cottage industries and organise production by supplying new designs and improved appliances, by establishing finishing plants to carry on finishing processes on a large scale, and by arranging research, experiment, and designing at the central technical institutions. Further, an organisation on a co-operative basis with adequate supervisory staff would be set up at each manufacturing centre to regulate and standardardise production by providing facilities for instructions by means of demonstrations and tuitional classes, by supplying new designs and appliances at cheap rates. Stores affliated to the central marketing organisation would be established at each of the manufacturing centres to arrange to supply raw-materials, to collect the finished goods, and to finance the workers. The above recommendation is just the same advocated by us in the form of co-operative organisation with only this difference that by organising artisans into co-operative societies his active co-operation can be secured and the spirit of self-reliance can be inculcated. Moreover any help which the Government industries department wants to give can be more effectively given through these societies.

It is by thus organising the cottage industries on sound lines, by patronising them in the form of purchasing and preferring their goods for state purposes and by creating a demand for their articles in the country and out-side countries that the cottage industries can be given a new life.

India has always been and will continue to be essentially a country of small and cottage industries and their revival and development is a matter of prime national need on account of heavy pressure of population on land, leaving therefore a large section of village population half employed during busy season of agriculture, increasing landless-

labourers class in the villages and extensive cultivation. The real problem in India is not to save and economise labour by mechanisation of industry but to provide labour for starving millions in the country and this can be done not by factory production alone but to a greater extent by the development of cottage and rural industries in the villages to meet the requirements of the villager. It is a happy sign that the Government and the intelligentia alike have realised the importance of developing these industries.

There is an erroneous idea prevailing among most of the students of Economics that small industries have no future and it is needless to give them any impetus. There is no doubt that large scale production enjoy certain economies, but if the small industries are properly organised on co-operative lines, cheap and light machines are invented and introduced and electricity is supplied, the small scale industries can as well stand in competition and flourish. Firstly because by co-operative organisation many of the economies enjoyed by the large scale producer in purhcasing raw materials, marketing and supply of credit etc. can as well be enjoyed by the small scale producer. The introduction of cheap and light machinery can secure the advantages of machinery and if electric power can be supplied much of the handicap of the small scale producer will disappear. Small-scale industries play an important part in the productive activities of countries like Germany and Japan. It is recorded that 90 per cent. of the industrial establishments in Germany are connected with small scale industries and two-fifths of the entire population is employed on them. Likewise in Japan many of the industrial establishments are of very small size. More than 50 per cent. of the factories employ 5 to 9 workers.

In India the need of cottage industries and the chances that they will flourish are greater than even the

above mentioned countries. Firstly because the pressure of population is on land is enormous and a large percentage of population needs employment. Secondly the cottage industries supply staple products for which there is an extensive demand within the country itself and there is no need of depending on foreign markets. Thirdly, many of the cottage industries represent a stage half way between agriculture and manufacturing industries and as such are closely associated with agriculture. The agriculturists can take to them during their period of enforced idleness and therefore even a small income secured therefrom will improve his economic position. Finally there is an old tradition and preference in favour of cottage industries in India.

But without proper organisation, technical help and patronage the cottage industries cannot develop. Along with co-operative organisation, introduction of cheap and light machines and the generation and distribution of hydro-electric power in the villages, and small towns would go a long way to revitalise the cottage industries of India.

Cottage Industries and the War :—The war has given a great fillip to the cottage industries in India, and they are experiencing a period of comparative prosperity and boom. Wooden articles, furniture, carpets, cotton cloth, woollen cloth, blankets, paper, earthen pots, simple iron goods, tents, nets, and a large number of other articles were needed for war purposes and the Co-operative and Industries Departments in all the provinces and Native States were harnessed to organise these cottage industries. Orders worth crores of rupees were placed with these societies and great activity was noticeable on all asides. Though the war demand is the most important factor which has given new life to the decaying cottage industries, yet that is not the only factor. Abnormal rise of price in

the case of all the articles of daily use and in some cases their great shortage of supply has forced the civil population to purchase the goods produced by cottage industries.

But this is going to be short-lived prosperity. After war these cottage industries will again die out in face of the severe competition of mill made articles. Unless proper steps are taken to organise them on sound and economic lines and they are protected against the competition of factory made articles, they are bound to die out.

Cottage industries are bound to play an important part in our future economic organisation and therefore it is the high time to consolidate their position. If they are not given help and protection after the war they are bound to die out soon.

CHAPTER XXII.

TRADE

Foreign Trade of India:—In very ancient times even; India had established trade relations with foreign countries. History tells us that India traded with Babylon as long as 3000 B.C. Egypt traded with India and imported her fine artistic things. Mummies in Egyptian tombs dating from 2000 B.C. have been found wrapped in Indian Muslin of the finest quality. "There was a very large consumption of Indian manufactures in Rome. This is confirmed by elder Pliny, who complained that vast sums of money were annually absorbed by commerce with India." The Muslims of Dacca were known to Greeks under the name of Gangetika (Pandit Malviya's minute of dissent to Industrial Commission Report). Later on India established her trade relations with China, Persia and Arabia. In those days as was natural the foreign trade was carried on in rare and costly goods having great value and small bulk. India's exports in those ancient days consisted of textile manufactures, metal ware, ivory, perfumes, dye stuffs, spices etc. Her imports were mainly precious metals like gold and silver. Even in that early period India had the tendency of absorbing large quantities of precious metals a characteristic which persists even to-day. The import of precious metals shows that India exported more than she imported and this favourable balance of trade was paid for in the form of precious metals which India imported. Besides these precious metals India also imported other metals like lead, brass, and tin, as well as wines and horses.

During the early Mohammedan period the foreign trade of India nearly collapsed because of the unsettled political conditions. Later on certain overland routes

were developed through the north western frontier of India and this stimulated the foreign trade again. "As Moreland had pointed out there were two regular routes on the frontier (1) Lahore to Kabul. (2) Multan to Kandhar. Kabul was a big commercial centre where merchants from India, Persia and other adjoining countries used to meet while it lay on the main caravan route from India to western China and Europe. Kandhar is the doorway from India to the greater part of Persia and both routes carried a considerable volume of traffic (Moreland India at the death of Akbar p. 219). In the Moghul period the foreign trade of India increased to a considerable extent. Developed means of transportation provided by the Moghul Emperors, enlightened Commercial policy of the rulers, and the patronage advanced by the courts to the industries which flourished very well during this period all went to develop the foreign trade of India to a considerable extent. During Moghul rule coastal trade was also very brisk and India had a fairly good merchant marine of her own which enabled her to trade with foreign lands.

Towards the end of the fifteenth century an all sea-route to India *via*-Cape of Good Hope was discovered. This disovery of a sea route changed the nature of foreign trade of India. A certain amount of bulkier goods also began to appear in the foreign trade of India. Till then the trade with Europe was carried on by land and water to Mediterranean coast. Thence it was picked up by Venetian and Geneva merchants who used to sell the Indian goods in the main European markets. The Indian trade was the source of all wealth in Europe. The monopoly of Indian trade made the merchants of Venice and Genoa fabulously rich. The great temptation to participate in this profitable trade led Protuguese to find out a sea-route to India. As soon a sea-route was found out to India all the merchants of important countries in Europe

set out to organise companies in order to participate in this profitable trade. The rivalry of Portuguese Dutch, the English, and French are too well known to be narrated. Ultimately English East India Company secured for it a virtual monopoly of trade with the East, by eliminating the competition of the French.

As has already been pointed out, the fine linen, silken, woollen, and cotton mnufactures and the artistic works of India attracted the foreign traders and not the raw materials which India exports at present. In the beginning East India Company encouraged the Indian industries on which its export trade depended. But later on the pressure of industrialists in England led to the reversal of this policy. The industries of India were annihilated and imports of manufactured articles were encouraged by just and unjust methods. Hence forward India began to import the very goods which she exported formerly and began to export raw materials to England.

Opening of Suez Canal:—With the opening of the Suez canal in 1869 the modern period in the history of Indian trade ensued. The distance between India and Europe was reduced by 4,500 miles and the period of voyage was shortened. This led to the rapid growth of foreign trade of India. But the opening of Suez canal though the most important factor in stimulating the foreign trade of this country was not the only cause. Complete political domination of India by the British and consequently establishment of peace and order, improved means of communication, and transportation (Railway, Road, Post office, Telegraph and Telephone) were also important factors in bringing about this change. The opening of Suez canal route coincided with the laying down of submarine cable between Bombay and Suez together with the great improvement in naval architecture and the growth of mercantile marine gave a great stimulus to

Indian foreign trade. Now India began to export mainly articles of considerable bulk and low value such as food stuffs, raw-materials of manufacturing industries, etc. The imports of India now consisted of cotton piecegoods, machinery, hardware, railway material, glassware etc. mostly from England, and later on from Germany, U.S.A. and Japan as well. Although England adopted a policy of free trade and allowed nationals of all countries to carry on trade with India, she had full mastery over Indian trade and enjoyed a virtual monopoly over Indian trade. England maintained this position till the end of the nineteenth century.

The struggle for Indian markets:—In the last decade of the nineteenth century this supremacy of England in Indian market was seriously challenged and gradually England began to feel the competition. Germany was the first to undermine the position of England and was followed by Japan. The German and Japanese Governments fully supported their businessmen by all conceivable methods. National shipping services were established, their national banks opened their branches in India to give credit facilities to their nationals, and commercial houses were established in important port towns of India. The main objects of Germany and Japan was to create a market for their manufactured articles in India and to secure Indian raw-materials. The U.S.A. did not establish any direct trading relations with India but dealt with India through London. It was only after the last great war (1914-18) that U.S.A. established her trade relations with India direct.

Before the last great war (1914) India's external trade increased to a remarkable extent. In the five year period preceding 1914 the export average was Rs. 224.23 crores and the import average was Rs. 151.67. This was much ahead of the average figures for the five year period 1899-

1904 which were Rs. 124.92 crores for export and Rs. 84.68 crores for imports. During the war trade with enemy countries was completely stopped. And owing to shipping difficulties trade with allied countries also declined very much. Even with the neutral countries trade was very much restricted in order to avoid the possibility of India's resources reaching the enemy countries *via*-neutral countries. Besides these war reasons the high freight and scarcity of getting shipping facilities also hampered the foreign trade of India. However the export of Indian goods increased towards the later war years due to large demands for war supplies from India by the Allies. During the war period the Indian import-trade was captured by the Japan and U.S.A. Both these countries took the full advantage of this opportunity offered by the war for capturing Indian market. Germany was an enemy country. British manufacturers were busy manufacturing for war purposes, the Indian mills were very few and therefore the vast market was practically open for these two countries. Thus Japan and U.S.A. entrenched themselves very strongly in the Indian market. It was a God-send opportunity to them and they fully utilised it.

Posts-war Trade :—The early post-war period experienced a trade boom caused by the removal of many war time restrictions and prohibitions on export. Trade with enemy countries was resumed and freight charges were reduced. But this boom was short-lived and the slump appeared. The reasons for this slump were the following :—Though European countries badly wanted Indian goods yet they could not buy them because of their weak financial resources and reduced purchasing power. The continuous inflation of their currencies and unfathomable depreciation of their currencies in the terms of the foreign currencies combined with loss of credit in the foreign markets made their position even worse, and they could not pur-

chase Indian goods. The markets of Britain, U.S.A. and Japan which were India's best customers also could not purchase because they already purchased so much that their markets were glutted with Indian goods. The continuous failure of monsoon for several years (1918 to 1921) and the high prices of food stuffs necessitated the imposition of an embargo on the export of food stuffs from India. Therefore exports naturally dwindled. Japan, the most important purchaser of Indian cotton, was engulfed in a crises. To make the matters worse the Government accepted the recommendation of the Babington Smith Committee and stabilized the exchange value of the rupee at 2sh. This further paralysed the export trade of India. On the other hand imports increased with rapidity. During the war Indian import requirements had been starved and orders had been placed for machinery and manufactured goods to be delivered at the discretion of the manufacturers. These goods now began to pour in the country. The high exchange also stimulated the import trade and huge orders were placed with foreign manufacturers. This resulted in a heavy balance of trade against India to the extent of Rs. 79.8 crores in 1920-21. In 1921-22 also there was an unfavourable balance of trade worth Rs. 33.93 crores. Afterwards the exports and imports moved towards normal conditions. This recovery in trade conditions was due to stabilization of European currencies and improvement in the credit position of central European countries. Till 1929 this recovery continued. But the collapse of Wall-Street in October, 1929 again upset the Indian trade. The American collapse affected the whole world. Most of India's important customers suffered and so Indian trade also declined seriously. Most of the countries including Britain went off the Gold-standard and the international trade was very much shackled and restricted by the imposition of all sorts of tariffs, import-quotas, control of exchange etc. The world trade depression set in with greatest in-

tensity and India was fully in the grip of this unheard of trade-depression.

Trade depression and Indian Trade:—The depression affected Indian trade adversely more than other countries because India was an agricultural country and mostly exported food stuffs and raw-materials. There was over-production of agricultural commodities and even of the manufactured articles in comparison to consumption, and the prices fell. But the prices of agriculture commodities fell to a much greater extent than the manufactured articles. Therefore the exports of India fell very much in comparison to the imports. In foreign countries there was very little demand for Indian raw-materials and therefore the exports declined to a very great extent. But imports also declined because of reduced purchasing power of Indian peasant. But in 1932-33 the situation became very critical when the value of Indian exports reached the very low figure of Rs. 136 crores. The value of Indian imports did not come down to the same extent, because the prices of manufactured articles did not come down to the same extent. The worst phase of the depression came down to an end in 1932 and the early months of 1933 had seen a considerable revival of business activity in several countries.

Signs of recovery became apparent in 1933 and the world depression seemed to be over by 1936 and the prices started rising both in respect of agriculture produce and manufactures. By this time the European countries were again spending huge amounts on armaments and war preparations which gave a stimulus to heavy industries and had an exhilarating effect on the general economic situation. But the restrictions on imports through quotas, high tariffs, trade agreements still continued and Indian foreign trade did not recover to the same extent as it might have otherwise done.

There was a downward tendency in world's prices towards the end of 1937 due to what is called a "recession" in business activity. This continued till the first few months of 1939 when a rise in prices was noticed. During this "recession" period Indian export trade suffered to a considerable extent.

Indian trade during War (1939):—In September, 1939 the war broke out in Europe and the Indian trade was very much affected by it. In 1938-39 the Indian exports were Rs. 169.35 and the imports were 152 crores. In 1939-40 the exports rose to Rs. 213.62 crores and the imports increased to Rs. 164.72 crores. Though trade with enemy countries was stopped yet the loss of those markets was more than compensated by the enormous war demands for Indian goods by the allied countries. The Government of India placed certain restrictions on the export of various goods from India due to war exigencies. This was done to stop the flow of goods from India to enemy countries by indirect routes. In order to do away with this possibility altogether the Government evolved an elaborate system of export licences so that the Indian goods may not find their way in the enemy countries by any ingenious device. Besides placing restrictions on exports the Government also placed certain restrictions on the import of various articles. The restrictions imposed on the imports in order to relieve the pressure on available tonnage in shipping and also to conserve foreign exchange import control licences had been in operation since May 1940. In 1940-41 India's foreign trade showed further deterioration. The exports were Rs. 186.90 crores and the imports were Rs. 156.79 crores. The decline in exports was due to the closure of many European markets of India on account of their occupation by Germany. The lower import figures were mainly due to the non-availability of shipping facilities.

The loss of continental export markets by India caused some anxiety to the Government of India. In order to find out whether some alternative markets can be found for Indian goods in July, 1940 the Gregory-Meek mission was sent to United States of America. The report of the mission was published in January 1941. The experts were definitely of opinion that U.S.A. could not purchase more of Indian goods. There was no chance of U.S.A. becoming an effective substitute market. India's principal exports like jute, wheat, groundnuts, oil cakes, raw hides, and skins and cotton could not be sold to America on account of the fact that they being bulky could not be transported with advantage. Moreover America had plenty of her own cotton. She also produced enormous quantities of wheat and groundnuts. Jute was the only commodity which U.S.A. did not produce but its demand was also very limited because she used cotton and paper substitutes for jute. She did not need Indian oil cakes and she had enough of her own hides and skins for tanning purposes and therefore she did not need Indian hides and skins. Moreover due to Pan-American Trade pacts South-American products found a readier market in U.S.A. Many South American countries produced the same products like linseed, oil cakes and groundnuts etc., which India exported and they were potential competitors of Indian products. But the mission envisaged some prospects for finding a market for Indian manganese ore, mica, rubber etc., in United States of America to be utilised for manufacturing of armaments.

On December 7, 1941 Japan declared war against the British Empire and U.S.A. The declaration of war by Japan was of great significance to Indian foreign trade. Already the Japanese assets were frozen in India in July, 1941. India used to export to Japan large quantities of raw cotton, pig iron, manganese, hides and skins etc. She used to import from Japan cotton-goods, artificial

silk goods, chemicals, glassware etc. With Japan becoming an enemy country the foreign trade of India was seriously affected. The exclusion of Japanese, German, and central European countries imports did not mean any loss to India as Indian industries got an opportunity of developing and in fact the Indian industries experienced unparalleled prosperity in those days. Had not Indian Government and the British conservative statesmen adopted a policy of not allowing India to develop new and heavy industries like motor, railway engines and others, India would have emerged out of the war one of the foremost industrial countries of the world. But as far as exports were concerned India depended very much on Japanese market for cotton. Japan used to purchase huge quantities of Indian cotton. With the closure of important export markets for a number of commodities particularly raw-cotton and raw jute, and the cessation of import of food grains notably rice efforts were made by the Government to induce the cultivators to reduce the cultivation of cash crops and to increase that of food crops. The other principle items of export to Japan like pig iron, iron ores, scrap iron etc. are urgently needed in the country itself for manufacturing war materials and therefore closing down of markets for these goods did not create any problem in India.

In 1941-42 the imports further declined from Rs. 156,79,40,000 to Rs. 152,26,71,000. But exports rose from Rs. 186.9 crores to Rs. 237 crores. This was due to the fact that due to war orders which the allies placed with India, India was exporting much more than before, while the imports were going down. Thus India had a very favourable balance of trade which was accumulating in Britain in the form of sterling assets. The favourable balance of trade continued during the remaining period of war and huge sterling assets accumulated in Britain in India's account. (over 1,000 crores).

Characteristics of Indian trade:—The following are the chief characteristics of Indian foreign trade:—

(1) The exports from India mainly consist of food stuffs and raw materials. The most important Indian exports are the following:—

Raw cotton, manufactured jute, raw jute, tea, hides and skin, oil seeds, foodgrains, metals and ores, wool, tobacco, oil cakes, fruits and vegetables and lac also figure largely in the export trade of India. The above list clearly shows that India is mainly an exporter of raw materials. But the reverse tendency is also discernible though it is very weak. India is gradually exporting increasing quantities of manufactured articles as well. During the recent Great War Indian mills were made to supply besides tea and jute, cloth to African and Asiatic countries, paper, leather, sugar and other manufactured articles were also exported from India to these and other allied countries. Had India a National Government to safeguard her interests and shipping facilities for the import of machinery were provided India would have developed her industries at an astonishingly rapid rate. But these facilities were denied to her and the opportunity which war offered to India could not be availed. But there is no doubt that after the war the percentage of manufactured articles in the export trade of India is bound to increase. In spite of these tendencies, however, it is clear that the salient feature of Indian export trade is the same as described above, that is, she is mainly an exporter of raw materials.

(2) The principal imports of India are manufactured articles. Cotton piece-goods, cotton yarn, cotton, oils, machinery and mill work, metals and ore, vehicles, instruments, apparatus, and appliances, artificial silk, chemicals, dyeing and tanning substances, paper and pasteboard, drugs, and medicines are important items of import.

(3) An important feature of Indian foreign trade is that there is generally an excess of exports over imports. This is why mostly India has a favourable balance of trade. Causes responsible for this feature are more than one. Firstly India was a debtor country till 1942 and had to pay interest for the interest charges. During the war period the accumulated sterling balances were utilised by the Government to pay off the sterling loans. Secondly India has to make payments to England under the heading "Home charges". Thirdly there are certain visible items of Indian imports like banking, insurance, shipping services, and Indian students studying abroad for which India has to pay. Whatever favourable balance remains after calculating these items is paid by the import of precious metal in the country.

(4) A very significant characteristic of Indian foreign trade is noticeable during recent years specially after 1920 that the trade is moving away from the United Kingdom and the empire to other foreign countries. In the beginning of this century U.K. was supplying 69 p.c. of the Indian imports. Her share came down to 64.1 p.c. in 1913-14, 45.5. p.c. in 1918-19, 30.5 p.c. in 1938-39 and 35.2 p.c. in 1939-40. The average of the Empire in the import trade was also reduced in 1939-40 to 56.3 p.c. while the average before the war of 1914-18 was 69.7 p.c. This tendency of drifting from U.K. and British Empire was most marked in the import trade. As far as export trade of India is concerned the tendency is not so marked. In the beginning of this century United Kingdom took nearly 29 p.c. of our exports. In 1914 her share was reduced to 24 p.c. During the war of 1914-18 the average of share of U.K. was 31.1 p.c. This increase was due to the fact that war exigencies stopped the free flow of trade and United Kingdom purchased raw materials and food-stuffs for war purposes and exports to enemy countries and also in some cases to neutral

countries were stopped. The average share of the United Kingdom in the five-year period after war 1919-24 came down to 24.2 p.c. In 1938-39 her share again increased to 34.3 p.c. which came upto 35.1 p.c. in 1939-40. This increase was also due to the war reasons. Due to war the share of the Empire in the export trade of India also increased to 55.9 p.c.

(5) Another feature of Indian foreign trade is that while she imports a great variety of articles, her export trade is mainly confined to a few important commodities such as raw cotton, jute, oil seed, foodgrains, hides and skins etc.

(6) Import of precious metals was also a prominent feature of Indian foreign trade. The westerners used to blame India for having an insatiable hunger for gold and this was one reason why India was never allowed to have gold currency. But since 1931 there has been a definite change. Instead of importing gold India went on exporting enormous quantities of gold. Indians regard this gold export as frittering away India's real assets, while the Government view is that it is merely sale of distress-gold."

(7) During recent years India has lost many export markets. Before the out-break of war in 1939 Germany, Italy and some other countries adopted the policy of isolationist economy thereby shutting the import of foreign countries. Therefore the market for Indian exports shrank considerably since 1931. When the recent war broke out India lost more export markets due to German domination of almost the whole continent. This reduced the extent of India's export market in Europe. To compensate the loss of these markets and to find out the possibilities of the American market for Indian exports Gregory-Meek Commission was appointed. But they could not hold out any hopes for the Utilisation of America as a

substitute market for Indian exports. Japan also became an enemy country and being the most important customer of India affected her trade to a considerable extent. The loss of Burma further adversely affected the foreign trade of India.

War and Indian Exports and Imports:—The war has dislocated the foreign trade of India and many of her markets were closed. During the war exports from India to U.S.A. increased by nearly three times. This was a temporary rise and was sure to come down when the war was over. During the war period India exported certain manufactured goods like cotton piece-goods, cement, instruments etc. to South Africa, Australia, New Zealand, Ceylon, Kenya etc.

Land frontier trade:—India has frontier trade with Afghanistan, Central Asia, Persia, Nepal, Tibet, and Western China. In the North-West frontier communication with the trans-frontier countries is maintained by Bolan Pass and Khyber Pass. The principal commodities that are imported by India from these countries are grain, fruits, raw-wool, living animals, and raw-silk. The most important exports are cotton goods, sugar, leather-manufactures, tea, and silk goods. With further improvements in trans-frontier communication, trade with these countries is likely to develop steadily. It will be of great advantage to India to develop the land frontier trade to the utmost possible extent, specially as, with the progress of the manufacturing industries in India the importance of these trans-frontier markets will be greater than ever.

Entrepot trade of India:—The entrepot trade consists of re-exports of articles which were imported previously. The country carrying on this trade serves only as a distributing centre. The entrepot trade of a country is totally dependent on her geographic position. If a country is so well situated that she can receive the goods

coming from distant countries more conveniently and distribute them to the neighbouring countries entrepot trade is bound to emerge. From very early times India has had a certain amount of entrepot trade principally due to her geographical position. Being situated in the centre of eastern hemisphere she is a convenient halting place for the trade between the Far East and the west. In olden times silk-goods, porcelain, pearls, precious stones, Venetian glass, and spices figured largely in Indian entrepot trade.

At present the principal countries with which India has entrepot trade are the United Kingdom, U.S.A., Burma, Ceylon and their respective shares in the total entrepot trade are 30, 28, 12 and 4 p.c. Iraq, Arabia, Iran, and Kenya 3 p.c. of Indian entrepot trade each. Bombay is the most important port which carries on this trade. Important commodities now in entrepot trade of India are raw skins, raw-wool, foreign sugar, spices, cotton goods, instruments, chemicals, metals and ores, hardwares etc. mill work etc. It must be noted that the entrepot trade of India is mostly in the manufactured articles which India receives from western countries.

India's balance of accounts:—On the credit side of India's balance of accounts, we find exports of merchandise, tourists-expenses, remittances by foreigners to India for the upkeep of schools, missions, and various charitable institutions and loans raised outside the country. On the debit sides, we have imports of merchandise, and imports of precious metals*, interest charges on loans raised outside the country, repayment of loans raised abroad, remittances by European businessmen, Government officers etc., profits of foreign banks, and insurance companies, freight charges of foreign shipping companies,

*Since 1931-32 India exports gold and as such this item should be shown on the credit side of her account.

home charges, *i.e.*, expenses on Government Account abroad in connection with furlough, pay, pensions, various articles like bullion stores etc. purchased for Government of India, remittances by parents and guardians to Indian students abroad, and tourist expenses of Indian Princes, chiefs and ordinary travellers. Generally India has a favourable balance of trade when only visible items are taken into account. But when we consider the invisible items of imports of India like the services from foreigners etc., this favourable balance cancels itself.

The 'drain':—It has been already stated that India generally has an excess of exports over imports. This excess is mainly attributable to the expenditure on Government account called the "Home-charges." The patriotic Indians have asserted that 'Home charges' are a regular drain of wealth from India to Britain and in this form India is made to pay a tribute to the ruling country. Sir Theodore Morison defines the 'drain' as that portion of India's debits for which in any given year she receives no equivalent in goods or money.

By analysing 'Home charges', we find that it includes payments for debt services, purchases of stores, Army, Navy, India Office, furlough pay, pensions etc. If we trace the history of India's public debt we find that many loans were incurred not for the benefit of India, but for imperial purposes. Many wars in the Middle East Africa and Far East were fought for the benefit of British Empire and India was made to raise loan for financing them. To this extent there is element of drain in the payment of capital and interest on those loans. Otherwise if borrowed capital is utilised for the development of the country payment for debt services cannot be regarded as drain. But the payments for loans which were not utilised for the development of India construed as drain, because India did not receive any equivalent

in goods, money or otherwise. As regards other items in the home-charges India does receive some material equivalents although there is also a certain amount of drain in these payments. For instance by thoroughly Indianising the civil and military services un-employment among educated Indians could be reduced to the minimum and much economy could be made and thus the tax-payers could be relieved. It would be really wrong to call the whole of the home-charges a 'drain' although there are parts of it like the payments for war debts fixed on India which can be justly said as 'drain'.

Internal Trade: The internal trade is classified into two categories (1) Coastal Trade (2) Internal Trade. When Burma was a part of India, India had considerable coastal trade with her. After Burma was separated from India trade with Burma is regarded as foreign trade so that the coastal trade figures of India have shown a decline. The principal ports which account for the major portion of coastal trade of India are Calcutta, Bombay, Karachi, and Madras. To ensure the fullest possible development of coastal trade in India a comprehensive programme of port development, the building up of an Indian Mercantile Marine, and a proper co-ordination between coastal and railway traffic are necessary, but these are topics on which we have already written at length elsewhere.

As regards inland trade, it is not at all possible to get reliable statistical data. It is estimated that India's internal trade is more than fifteen times her foreign trade. Whatever the figures may be it can be said without doubt that India has a very large inland trade. But unless reliable statistics regarding internal trade are available its relative importance as compared to her foreign trade cannot be ascertained. Government used to publish annually a compilation called the Inland Trade (Rail and river-borne)

of India. The figures given related to quantity only in most cases and their value was not given. This publication ceased in 1923 and again it has been revived under a different name since 1933, but still figures relating to the value of the trade are lacking.

With the development of rail and road communication the internal trade of India has increased rapidly. If the rural areas are also supplied with metalled feeder roads the internal trade of India is bound to increase to a very great extent.

Indian Exports and Imports :—As regards exports the most important is raw and manufactured jute accounted for nearly 27 per cent. of the total export trade in 1941-42. Next in importance is cotton raw and manufactured which accounted for nearly 22.6 per cent. of the total export trade. Tea accounts for 16.57, oil seeds 4.43, leather 2.54, metal sand ores 2.99, grain, pulse and flour 4.39, hides and skins raw 2.02, wool raw and manufactured 1.45, tobacco 0.96, fruits and vegetables 1.30, lac 2.07, oils 1.11. Other articles are oil cakes, coal, coir, spices, rubber-raw, hemp-raw, coffee, provision and oil-man stores, fish, chemicals, drugs and medicines, dyes and colours, sa'tpetre, paraffin wax, wood and timber, apparel, sugar, animals living, silk raw and manufactured, fodder, etc.

As regards imports the most important item was that of cotton and cotton goods which accounted for 12.78 per cent. of total imports in 1941-42, grain pulses and flour 8.67, oils 12.61, machinery 7.92, metals and ores 4.48, vehicles 7.52, instruments, apparatus and appliances 3.00, artificial silk 1.86, chemicals 3.21, dyeing and tanning substance 2.71, paper 2.34, sugar 0.62, wood and timber 1.58, provisions and oil-man stores 1.48, drugs and medicines 1.50, spices 1.28, hardware 1.27, liquors 1.26, wool raw and manufactured 2.60. Other

articles are silk raw and manufactured, rubber manufactures, fruits and vegetables, tobacco, glass and glasswares, precious stones, tea chests, stationery, arms, ammunition and military stores, millinery, apparel, porcelain, toys and requisites for games, soap, paper making material, umbrellas, tea, animals living, boots and shoes, fish, jute, and jute goods, coal, paints and colours—tallow and wax, gums, resins and lac, and other articles.

CHAPTER XXIII.

TRADE AGREEMENTS.

Imperial Preference:—A study of some of the *Trade agreements into which India has entered in recent* years is not possible without understanding the background of Imperial Preference. The term 'Imperial Preference' means some kind of preferential arrangement that is made amongst the different countries of an Empire, here the British Empire, in matter of the mutual trade relations. So far as the mere theory goes, there is nothing wrong in such an arrangement of preferences being granted by one country within the Empire to another country, the only essential condition being that such an arrangement should be the result of the free will of all the parties concerned as expressed by the public opinion of the countries involved. But if we look at the question of Imperial Preference as applied to India from a historical standpoint, we will atonce be struck with the glaring fact that the essential condition referred to above has all along been lacking. The real motivation for the movement of Imperial Preference came from the rising competition that England began to experience in the last quarter of the 19th century from countries like France, and Germany, and later on from U.S.A. and Japan also, in the field of industrial production as modern capitalist industrialism was taking root in these countries as well by and by. Canada was the first to begin it by lowering her duties by one-eighth in favour of British goods in 1897. Soon other colonies also followed suit, though England, entrenched in her free-trade policy that served her interests so well, at first did not reciprocate. With the passage of time the movement gathered momentum and by 1922 preferential tariffs were in operation in twenty-six British colonies. The benefit of the

preference was generally meant for British goods only, though in some cases they were extended to other parts of the Empire also. Ultimately with a change in the situation, Britain also found it possible to make virtue out of necessity and she reciprocated by means of preferential duties on some goods of Empire origin. The enactment of the Import Duties Act in 1932 was an important step which Britain took in this matter. The world-wide trade depression of the thirties had aggravated the situation and the problem of Imperial Preference as a means to organise the whole Empire into an economic unit had come to the front as it never came before.

The Indian attitude towards Imperial Preference has always been that of out-and-out opposition. And one remarkable fact in this connection has been that of the public opinion in the country being one with that of the Government of India till very recently, when the latter underwent a re-orientation under the unpreventable pressure of the White Hall. It was in the year 1903 that for the first time Lord Curzon's Government pronounced against Imperial Preference on a number of grounds the net result of which was that India had very little to gain and very much to lose. More or less the same opinion was expressed by the representatives of the Government of India at the Imperial Conferences of 1923, 1926, and 1930, though they did not object to partial and limited preferences which were granted in the case of Iron and Steel industry in 1927 and 1934 and in the case of Cotton Textiles in 1930 and 1934.

The main reason for India's opposition to any arrangements on the basis of Imperial Preference ought to be more than obvious to the meanest of intelligence. India is industrially a backward country but with vast potentialities for industrial development in future. Her economic well-being, as we have already seen, requires

that the existing dependence of the country on one single industry, agriculture, to such a great extent should be ended. This is not possible unless a well-planned policy of industrialization under the state protection (and also control) is adopted. This protection would be necessary not only against non-British or non-Empire goods but also against British and Empire goods. Under such circumstances any preference granted to the latter would mean nothing better than a back-door breach in the policy of protection amounting to a great national loss. Similarly preferences that would result in encouraging our exports of raw materials and imports of manufactured articles cannot but be harmful to the real interests of the nation from a long range point of view. An important point which goes against the desirability of granting preferences is that regarding the burden on the consumer. When preference is given in case of an article which is otherwise a protected one, it amounts to imposing a burden on the home consumer not in the interest of the home producer but of the foreign producer who gets a sort of subsidy at the cost of the consumer. This is the case of 'Preference within Protection,' and is definitely against the interests of the country granting such a preference. Even in those cases where the competition is only between the two foreign producers, one preferred and another non-preferred, and the preferred one is inefficient and his ex-duty price is higher, in which case only differential duties are necessary, the total consumer's burden is more than the total revenue obtained by the Government and the difference between the two is no better than a present to the preferred inefficient producer because he is able to sell his product in a given quantity at a price governed by the higher duty but has himself only to pay a lower rate of duty. And even if the ex-duty price of the preferred article falls below the ex-duty price of the non-preferred one and the latter ceases to be imported,

the burden on the consumer frittered away to help the preferred producer would not come to an end.* All this leads us to the conclusion that granting of preferential duties to Empire goods cannot be either in the interests of the nation as a whole or in those of the home consumer. And still India found herself in a quandary in 1932 at the Imperial Economic Conference at Ottawa, and had to fall in with a general scheme of Imperial Preference. We shall now examine the agreements between India and England in detail against the above back-ground.

The Indo-British Trade Agreement (1932):— This agreement was concluded between India and the United Kingdom at Ottawa. According to the terms of the agreement, so far as India was concerned a preference of 10 per cent. was granted to a number of commodities mentioned therein and imported from United Kingdom. On certain classes of motor vehicles, however, a preference of 7½ per cent. only was granted. Similarly Britain granted a preference of 10 per cent. on several commodities imported from India into Britain, free entry to a small group of commodities, and varying amounts of specific margins of preference on certain other Indian commodities. The tariff changes (on the Indian side) so affected by the Indian Tariff (Ottawa Trade Agreement) Amendment Act of 1932 (December) came into force from 1st January, 1933. The Agreement was ratified by the Indian Legislative Assembly in November, 1932 provisionally for a period of three years.† The Ottawa agreement, however, aroused a lot of criticism from popular, commercial as well as industrial opinion in the country. And the same feeling found its definite expression in the resolution that the Legislative Assembly

*See Indian Fiscal Policy: Adarkar.

†The Assembly also ratified the Supplementary agreement regarding iron and steel signed on 22 September, 1932. The agreement granted differential duties in favour of British imports of iron and steel.

passed on 30th March, 1936, recommending the termination of the Agreement. The Government of India gave six months' notice to terminate the agreement on 13th May and the United Kingdom Government accepted it. But subsequently the agreement was extended subject to termination at three months' notice by either side unless it was replaced by a new agreement which was signed on 20th March, 1939 and which came into force from 1st April of the same year in spite of an unfavourable vote of the Assembly.

Since its very inception, the question has been very hotly debated as to whether the Ottawa Agreement was in the best interests of the country or not. At the very start we have to point out that the existence of abnormal factors like the world-depression of 1929-33, the growth of economic nationalism in several countries of Europe and the instability of foreign exchanges and formation of currency blocks, as the Gold Block or the Sterling Block, introduced many new complexities in a problem already complex and the formation of any definite opinion was thus made very difficult. Let us, however, examine the various arguments put forward from both the sides before we arrive at our conclusions in the matter.

One of the main arguments of the supporters of the agreement has been that it resulted in an increase of exports of preferred commodities from India to United Kingdom at a time when the imports of preferred commodities in the United Kingdom from all sources fell. For this the credit must go to the grant of preferences. But here it must be remembered that this increase of exports from India to United Kingdom was much more in the same period (1931-1934) in case of non-preferred articles. Whereas the net increase in respect of preferred articles was only 16.6 per cent. it was as high as 36.4 per cent in respect of non-preferred ones. This brings us to the conclusion

that there must have been other overwhelming forces than the preferences which were responsible for this increase of exports to United Kingdom and which were further reinforced by the trade recovery which took place in the United Kingdom after 1931. Another point which needs to be taken note of in this connection of increased exports of both preferred and non-preference articles from India to England is that this increase has been the result of diversion of trade from other countries to United Kingdom, India reaping no net benefit on the whole. Referring to the greater increase in the non-preferred exports from India to United Kingdom as well as other countries, the supporters of the agreement, however, have replied that it was due to the character of the commodities concerned for they consisted mostly of raw materials which always commanded a ready market in Europe (cotton, jute, wool, hemp), while the preferred group consisted of such articles whose share of world trade had declined relatively to raw materials in the period. Regarding the diversion of trade from other countries to United Kingdom, the protagonists of the agreement maintained that decline in exports to other countries was not the result of the Ottawa Preferences but of the policy of economic self-sufficiency which the European countries had adopted. They thus wanted to separate the increase of exports to United Kingdom as a consequence of the Ottawa agreement from the decrease of exports to other countries which they attributed to different causes altogether.

So far we have examined the view point of the supporters of the agreement from the standpoint of exports and we find that on account of the existence of a number of complicated factors, quite opposing conclusions can be arrived at and it is not very safe to base our judgment on them. But there are other facts of the case also. For example, the opponents of the Ottawa pact argued that of the preferred group, there were some articles such as

tea, jute manufactures, goat-skins, castor-seeds, lac and Mica which did not need any preference as all of them excepting tea dominated the market, whereas tea could take care of itself due to Tea Restriction scheme by which main producers of tea had arrived at an agreement amongst themselves. Then there were a few commodities in which there was not much scope for future expansion because of the presence of Empire competitors, or because the article such as Indian tobacco, was not of the type required in the United Kingdom. In some cases the United Kingdom market was too small in comparison to foreign markets. On all this a-prior reasoning therefore it was concluded that Ottawa preferences really did not bring much advantage. And with the separation of Burma from 1st April, 1937, some of the important commodities enjoying preference (Rice, teak-wood, paraffin wax, pig, lead) were either altogether dropped out of list or lost much of their importance. Another very damaging criticism was that some of the articles which benefited most from preferences, as tea or jute manufactures, were those dominated by British interests and hence the advantage went to them rather than to Indians. Equally important was the fact that during the post-war years the trend of India's foreign trade has been away from the Empire which means that India should be very careful about maintaining her foreign market. The Ottawa agreement, however, is a hinderance in our way as it already binds our hands in respect of a number of commodities thus reducing our bargaining capacity as we have left very little with us to offer to those countries. And so far as England was concerned it was argued that there was no fear of retaliation as England in her own interests could not afford to refuse to have Indian raw materials free of duty which form the major part of our export trade. And this in fact leads to the crux of the whole question which must be the determining factor in

giving our final verdict about the Ottawa pact. The preferences that we granted to British imports were at the cost of our own industrial development as the imported articles competed with the Indian goods. Whereas the preferences granted to Indian exports to the United Kingdom did not involve any competition with internal products, actual or potential, but were actually helpful in that the imports were complementary, as raw materials, to British production. The fact of the matter is that there can exist no common ground of co-operation between a country which is industrially undeveloped but is anxious for future development and has resources for it, as India, and a country that is industrially developed and stands in need of markets for finished goods or sources of raw materials as England. The only basis of co-operation between the countries can be that the developed country agrees to help the developing country by providing such articles as machinery etc., which is necessary for industrial progress and that also till those articles are not manufactured in the country itself. Obviously this was not the basis of agreement between India and the United Kingdom arrived at in 1932. Hence on the basis of these uncontrovertible a-priori reasonings our verdict goes against the Ottawa agreement which was not in the best interests of the country.

The Bombay-Lancashire Textile Agreement:— This agreement was signed between the Mill-owner's Association, Bombay, presided over by Mr. H. P. Modi (now Sir) and the British Textile Mission, led by Sir William Clare Lees, at the close of the year, 1933 and was to remain in force till December 31, 1935. The agreement is popularly known as Mody-Lees Pact also.

The agreement reiterated India's right to protect her industry even against Britain, but at the same time admitted that a higher measure of protection was required

against other countries. In other words it was a case of accepting the principle of 'preference within protection' which is nothing better than back-door sabotaging of protection in favour of a foreign imperialism.

The agreement provided for the following:—

(*i*) Stabilization of tariff on imports of cotton goods from U.K., after the removal of the revenue surcharge, a 20 per cent. *ad valorem*. (*ii*) There should be differential duties in favour of Britain on imports of cotton yarn and piecegoods. (*iii*) Import duty on the U.K. imports of cotton yarn should not exceed 5 per cent. *ad valorem* or $1\frac{1}{4}$ annas per lb. (*iv*) There should be duties of 30 per cent. or $2\frac{1}{2}$ annas per square yard for artificial silk and 30 per cent. or 2 annas per square yard on mixtures of cotton and artificial silk. (*v*) In the Empire and other overseas markets Indian goods should get the same advantage as the British goods. (*vi*) The British cotton industry should take effective action to popularise Indian cotton in Lancashire. The Indian Tariff (Textile Protection) Amendment Act, 1934 incorporated the tariff provisions of this agreement as well as of the Indo-Japanese Trade Agreement which we shall discuss below.

About the usefulness of the agreement the opinion in the country has been a divided one. As regards the benefits of the pact, it has been suggested that exports of Indian cotton to United Kingdom have increased owing to the efforts of the Lancashire Cotton Committee established with the definite purpose of encouraging the Indian raw cotton in Lancashire mills. Now it is a fact that there took place relative as well as an absolute increase of exports of raw cotton from India to United Kingdom during the period of the agreement, but it is difficult to say how far the increase was due to the agreement only and not other factors, as the tendency of Indian foreign trade, to divert from other countries to U.K. and

the favourable parities that obtained. The increasing proportion of the Indian cotton of the world consumption of all cottons. (It was 9 per cent. in 1932-33 and rose to 14.2 per cent. in 1935-36) clearly showed that price consideration was a factor of decisive importance. Another benefit claimed from the agreement has been regarding the extension to Indian goods of any advantages which the British goods might get in other Empire countries. But for all practical purposes this advantage was of little value as the Indian mills had no chance of capturing any appreciable markets overseas in the face of prevailing competition there. And as against these doubtful advantages, India suffered a definite loss (about a crore of rupees per annum) by sacrificing the consumers' burden in favour of British interests and by agreeing to withdraw much of the protection that the Indian industry formerly enjoyed because of preferential duties granted to United Kingdom Imports of cotton and artificial silk fabrics. Then another very important citicism against the agreement was that it was not supported by the whole textile industry of the country. Considering all these points, therefore, for and against the agreement, there is the irrestible conclusion that though the agreement offered very definite advantages to Britain, what India received in return was neither so certain nor commensurate with the loss suffered.

The Supplementary Indo-British Trade Agreement (1935) :—It was on the 9th of January, 1935 that this agreement was signed between the Government of India and His Majesty's Government. It contained the very same principles which formed the part of the Ottawa agreements between the U.K. and the Dominions. The terms of the agreement provided for the following :—

(*i*) The Indian industry had a right to protect itself against the British industry also, but the protection may be lower than against other countries. This meant an acceptance of the principle of preferential duties.

(*ii*) Protection was to be granted to industries under the terms of discriminating protection only.

(*iii*) The extent of protection should be such as to equate the prices of imported goods with the fair selling prices of similar goods produced in India. In keeping with this, wherever possible lower duties may be imposed on British goods.

(*iv*) The British interests would get an opportunity to put their full case before the Tariff Board whenever it examined the case of any industry for substantive protection.

(*v*) The Government of India on their own motion or on the request of His Majesty's Government would have a right to review the existing protection during the period of its currency even if any important change occurs in the conditions of the protected industry.

(*vi*) His Majesty's Government would give consideration to the steps that might be taken to develop the import from India of raw or semi-manufactured materials used in the manufacture of articles which are subject to preference in India. Popularising the use of Indian cotton was one such step. Privilege of duty free entry of Indian pig-iron into the United Kingdom so long as preferential duties of the Iron and Steel Protection Act of 1934 continued in connection with British imports of iron and steel goods was another instance in the point.

The agreement obviously had a hostile reception in the country and when the Assembly was called upon to consider it, it rejected the agreement, (January, 1935). It therefore, had to be certified by the special powers of the Governor General. The agreement continued up to 31st March, 1939 when it lapsed with the main Ottawa agreement. It has not been renewed since then.

The reasons why the Indian opinion was opposed to the agreement are more than obvious. The Indian commercial opinion was never consulted and the principles that it accepted had no other effect than that of whittling down the whatever fiscal autonomy India was popularised to possess. Further, the argument of the Government that the principle of preferential duties India had already accepted in case of Steel Industry Acts of 1927 and 1934 and Cotton Industry Act of 1930 was no better than moralising out of helplessness. The country had agreed to preference within protection in 1927 and 1930 only under distress and on the basis of having 'something' rather than losing all and that could not be made any excuse for such an infliction at any future time.

The New Indo-British Trade Agreement (1939) :—The agreement was signed between the Government of India and His Majesty's Government in London on 20th March, 1939. The agreement when placed before the Indian Legislature was rejected, but in spite of this it came into force and its term was fixed up to 31st March, 1942. The Indian Tariff Bill of 1934 was also amended by the special power of the Governor General, on the 18th April, 1939 to give effect to the tariff changes necessitated by the new agreement.

The Agreement contains in all sixteen articles. As between U.K. and India the agreement provides for the maintenance of various margins of preference for a number of imports of Indian goods into the United Kingdom; continuance of free entry* for Indian goods which had free entry at the time the agreement was made; free entry from all sources of a few other commodities: on the side of India, for the grant of a preference mostly of 10 per cent. or 7½ per cent. on United Kingdom imports.

*This means preference so long as foreign imports are subject to duty. This meant unguaranteed preference.

Besides, there are reciprocal concessions embodied in Article 10 in regard to the export of Indian raw cotton to the United Kingdom and the import of British cotton goods into India. Preferences have also been exchanged on a wide range of goods prescribed in two schedules with the colonies, Protectorates, Protected States, and certain British mandated Territories to which India has, besides agreed to give most-favoured-nation treatment.*

This new agreement which came into force on 1st April, 1939 replaced both the Ottawa and the Supplementary Agreements. The Supplementary Agreement was not renewed because arrangements in regard to cotton and iron and steel formed the part of the new agreement, and so far as the general principles were concerned they were found to be of little direct value. This was a good featue of the agreement. Another welcome feature was that the scope of preferences granted to the United Kingdom was considerably narrowed by excluding certain articles coming in the categories of food, drink, tobacco and raw materials or semi-manufactured goods. Majority of items granted preference are such as were not manufactured in India, for example motor cars, cycles etc.

In spite of a few welcome changes, the agreement aroused great resentment in the country. There were several reasons for this. Some of them were of the basic character and we have referred to them in connexion with the Ottawa agreement also. For example, the agreement left little scope for concluding bilateral agreements with other countries as India had left very little to offer them in exchange for her exports. Similarly the preferences that India granted had the effect of adversely

*India and Imperial Preference: Madan.

affecting the industrial development of the country, present and future, whereas the preferences that England granted were such as were helpful to her industries, or in which she had to face keenest competition. Besides these objectional features of somewhat basic nature, there were others also. First of all it is to be noted that separation of Burma from India has meant the abolition of some preferences (pig-lead, rice-meal etc.) and great reduction in the value of others (teak-wood, paraffin wax, rice and tobacco manufactured). Then loss of preference on wheat which was a preferred article beforehand, to afford freer access to American wheat to the British markets, reduction of preference on rice, chrome-leather, certain jute manufactures and woollen carpets, and the refusal of the British Government to withdraw the drawback facilities in respect of linseed utilised in the manufacture of linseed oil were some of the other points of criticism made against the industry. But the weightiest criticism against the agreement has been made on the ground of the cotton article in it which linked the export of Indian raw cotton to Lancashire with imports of British piece-goods in this country. The Agreement fixed the following basic duties on British goods: 17½ per cent. on printed goods, 15 per cent. on all others. The United Kingdom was granted a minimum import quota of 350 million yards a year, and any fall in imports below this quota in any year was to be compensated after the end of the year by a 2½ per cent. reduction in the duty, which reduction was to be restored if the Lancashire imports exceeded 425 million yards. Similarly the basic rates were to be increased, if the United Kingdom imports in any year exceeded 500 million yards, to such an extent as may be deemed necessary to restrict imports during the following year to the "maximum yardage" figure of the previous cotton-goods year (1st April, to 31st March). Besides this there was another linking arrangement between

cotton exports from India to United Kingdom and cotton piece-goods imports from United Kingdom into India. The standard figure for cotton imports into U.K. was fixed at 5 lakhs of bales for the year ending 31st December, 1939, 5½ lakhs for 1940 and 6 lakhs of bales for subsequent years. Any fall in these figures was to be counted as an increase in the imports of cotton piece-goods into India from U.K. at the rate of 25 million yards for every 50,000 bales or less of deficiency. If, however, the deficiency was to exceed 1 lakh of bales in 1939 or 1½ lakhs in any subsequent year, the duties were to increase. And if the United Kingdom imports of raw cotton exceeded 7½ lakhs of bales the duty on printed goods was to be reduced to the level of the duty on other piece-goods. Thus increase and decrease in duty were also related to exports of raw cotton to U.K. The Cotton article containing the above provisions was criticized, first because the imports quotas of British piece-goods were fixed at a high figure, the minimum of 350 million yards being higher than the actual imports of 267 million yards in 1937-38. Secondly the standard figures for cotton imports into United Kingdom were very low. The un-official advisers to the Government of India had demanded the figure for cotton piece-goods imports to be fixed at 200, 300, and 400 million yards as minimum, medium and maximum and for raw cotton exports at 6½ lakhs of bales. The actual amount of raw cotton intake guaranteed by the U.K. under the agreement being low meant no sacrifice on her part, whereas India was bound to purchase British imports at a high figure. Then, there was no guarantee that short-staple raw cotton in a definite proportion would be imported which was the main demand of the cotton growers in India. And on the top of this came the doubling of the import duty on long-staple cotton of which no notice was taken in the agreement. All this made the cotton article very unfair to our country.

About the pig-iron, which was granted free entry, the British Government, however, reserved to itself the power to impose a customs duty on Indian pig-iron if the British iron and steel imports into India were subjected to import duties substantially less favourable to the U.K. than under the Iron and Steel Protection Act of 1934.

Regarding the value of preferences in respect of other exports also the following points deserve mention. A number of articles as jute manufactures, coir, yarns and mats, hide and skin, leather and raw goat skins had no possibilities of any extension of markets because they already commanded a dominating share. To commodities like Tea and Jute, preferences were not necessary, in the case of the former because of the Export Regulation Scheme and in case of the latter because of its monopolist position. Thus it was in respect of a few commodities only as linseed, oil seed cake, woollen carpets that preference was of some value. And when all these objections are remembered in the context of that deep resentment which was felt when the Tariff Amendment Bill of 1939 carrying out the provisions of the Agreement was certified by the Governor-General, the hostile attitude of the country to the agreement becomes easily understandable. How far, however, the agreement meant a fair deal to the country on which opinions have differed. But this much at least can be said without any fear of contradiction that whatever insurance value these agreements might have had to India in a world of declining and contracting trade, still in concluding them the best interests of the country were not the guiding consideration. To this extent, therefore, there is no doubt that they must have been made much better than they actually were. But there is a more basic fact that must be emphasised even at the cost of repetition and it is that any preferential arrangement whereby we agree to import manufactures or to export raw materials or food-stuffs must be adjusted in our more permanent

scheme of country's industrialization. Any agreements out of time with such a planned development of the country must be looked upon as great national loss. But our tragedy for the present lies not in discovering that these agreements did not fit in in the larger scheme of country's economic development, but in the fact that so far no such scheme was envisaged and framed.

Indo-Japanese Trade Agreement (1934) :—During the last decade India began to experience very serious competition from Japan in respect of cotton goods and the trade relations of the two country got disturbed. In order to free herself, Government of India denounced the trade convention of 1904 with Japan so that it could now take action against her only. Japan thought of retaliation by boycotting imports of Indian cotton. It was to stabilise this disturbed state of affairs, that an agreement was arrived at between Japan and India in 1934.

The agreement made the following provisions: (*i*) Both the parties agreed to extend to each other most-favoured-nation treatment. (*ii*) Both had right to protect their industries by variations in customs-duty against currency depreciation, subsequent to 31st December, 1933. (*iii*) Both agreed to reconcile their mutual interests by negotiations when requested by either. So much for the convention part of the agreement. The Protocol part of it laid down.: (*i*) The customs duties were not to exceed 50 per cent. *ad valorem* or 5¼ annas per lb. whichever is higher on plain greys and 50 per cent. *ad valorem* on others. (*ii*) A system of quota was adopted for imports of Japanese goods and exports of Indian cotton. Japan was allowed to export in any year (April-March) 325 million yards of cloth (exclusive of re-exports) provided she purchased one million cotton bales from India in a year (January-December). The maximum of the Japanese imports in any year was fixed at

400 million yards a year. For this purpose the basic allotment of 325 million yards was to increase by $1\frac{1}{2}$ million yards for every ten thousands bales of the excess over one million bales taken in any cotton year. The protocol part of the agreement was to come to an end automatically on 31st March, 1937, but the convention part of it was to terminate on the same date provided either of the contracting parties gave six months' notice.

Now, so far as the working of the agreement is concerned it showed a number of defects, besides some advantage that resulted owing to expansion in the cotton exports to Japan. It is, however, important to remember in this connection that this expansion in cotton exports to Japan was not solely due to the agreement, as Japan's need for cheaper kinds of cotton for her cheaper lines of cotton goods must also count a lot for it. The revival in world trade after 1934 was also a factor. Japan, on the other hand reaped substantial advantages. Under the most-favoured-nation treatment Japan took full advantage by dumping all sorts of cheaper Japanese goods such as cycles, glassware, boots, shoes, woollens etc., in the Indian market and hence it was suggested that a comprehensive trade agreement rather than one confined to any one commodity only should be made. The Japanese competition adversely affected a number of nascent Indian industries. Another defect noticed in the working of the agreement was regarding the evasion of the quota fixed for Japanese cotton piece-goods imports through a number of loopholes that existed. Fents, artificial silk goods, and made-up cotton goods, such as shirts, pyjamas, skirts etc. which did not come within the letter of the agreement were imported into India in large quantities whose actual effect was defeating the very purpose of the agreement. Thus it was clear that the agreement required improvements in all these directions and Japan was a greater benefiter of the two.

New Indo-Japanese Trade Agreement (1937) :— When negotiations for a new agreement began all the defects mentioned above were pointed out by the commercial community in India, but the revised agreement was substantially the same as the old one. No improvement was made either in the matter of a more comprehensive trade agreement or including fents, artificial silk goods or made-up cotton clothes in the quota of the Japanese goods fixed.* Of course in respect of fents Japan was to limit the imports to a fixed quantity (8,950,000 yards) per year. The Government of India agreed that duty on cotton fents would not exceed 35 per cent. *ad valorem.* The separation of Burma from 1st April, 1937 from India called for a few modifications. The basic import quota was reduced from 325 million yards to 283 million yards, and the maximum limit of the imports of cotton piece-goods, which was conditional on Japan's taking 1½ million bales of raw cotton from India, was reduced from 400 to 358 million yards. This new agreement came into force from 1st April, 1937 for 3 years ending on 31st March, 1940. As the new agreement was no improvement on the old, keen disappointment was felt in the country. Though it was not forgotten that India requires an outlet for her raw cotton as Indian mills normally consume only 50 per cent. of our total production, still India's position as a seller was not so weak and the view persisted that a better agreement from India's view point could have been arrived at. Japan's engagements with China if eased the situation regarding Japanese imports, the intake of Japan of our raw cotton also suffered. With the entry of Japan into the present war, trade relations with her are for the time being at an end and Japanese competition is non-existent.

* Imports of artificial silk fents into India were prohibited and import duties on artificial silk piece-goods raised by the Finance Department Notification (1937) which helped the silk industry.

Provisional agreement (1940) :—After the end of the above agreement, negotiations for a new agreement began, but on account of a wide gap between the demands of the two parties, the negotiations this time turned out to be protracted. This time the Government of India wanted to take a stiffer attitude in removing certain defects previously disclosed in the working of the agreement such as about the evasion of the quota as well in making improvements in respect of increasing minimum quota of raw-cotton exports from and cotton-goods imports into India. Japan naturally disagreed. Therefore until a permanent agreement was concluded, there was a tentative arrangement between the two parties whereby the maximum figure for Japanese cotton textile imports to India was raised to 400 million yards annually, the rate of imports depending as before on the amount of raw cotton imports into Japan from India. The Japanese Government also announced that on the conclusion of the new agreement shipments of Japanese goods made on the provisional basis would be re-calculated and re-adjusted with retrospective effect from 1st April, 1940. This increase of the maximum, however, was strongly criticized by textile interests in India.

The end of Japanese Trade agreement (1941) :— The expected agreement with Japan could not be arrived at and in July, 1941 the British Government denounced trade relations with Japan and accordingly the requisite six months' notice of the termination of the Japanese Trade Convention of 1934 was given to Japan. Soon Japan entered the present war on the axis side and there came an end to all kinds of relations with her which would continue so long as the war lasts.

Indo-Burma Trade Agreement (1941) :—After the separation of Burma from India, for sometime trade relations between the two countries continued on the free trade basis. But the Government of Burma was

in need of money and wanted to raise revenue from customs. As a result the free trade regime came to an end from 1st April, 1941 and the trade relations between the two countries came to be regulated under a Trade agreement which left both the Governments free to impose tariff duties, subject to the reciprocal concession that their general tariff rates would give margins of preference to goods of India and Burma as the case may be of 10 per cent. against Empire, and 15 per cent. against foreign goods. Subject to these provisions, the contracting parties undertook to accord each other most-favoured-Empire-nation treatment. The agreement was to run for an indefinite period subject to denunciation by either part at six months' notice. On the basis of this agreement Burma granted a number of concessions to India by admitting some commodities free of duty and by fixing maximum import duties on special rates on others. Similarly India granted concessions to Burma. Trade in certain special articles as cotton goods, kerosene oil, timber and sugar were separately regulated. With the occupation of Burma by the Japanese, however, in the present war, at present there exist no relations with her.

The Question of suitable Foreign Trade Policy:—We have discussed in the foregoing pages how India, in the field of her foreign trade, entered into agreements with some countries in recent years.* This was a departure from her old policy of according universal equality of treatment to imports from all nations under a single line tariff. Though the agreements which India made with United Kingdom or Japan did not receive the support of the commercial and popular opinion in the country, still there arose in certain quarters a persistent demand in favour of bilateral trade treaties. A similar movement in case of a number of countries, particularly

*In March, 1938 a Preliminary Commercial Agreement was concluded between the Governments of India and Union of South Africa also.

in Europe, was the main argument put forward in support of this demand, as it was contended that no single country, much less India, can afford to keep out of line with the general trend of economic and trade policy. This question of short term bilateral agreements, therefore, calls for a more critical examination before any judgment in respect of it can be finally given.

Now the first fundamental view point that must be appreciated in all discussions about India's foreign trade expansion is that the central problem of our economy is not to bring about an expansion of our foreign trade somehow or other, through imperial preference or bilateralism, implying increased imports of manufactures and increased exports of raw materials or mineral resources. Our problem in fact is that of using our vast resources for our own economic development. Thus considered, the question of imperial preference or bilateral trade agreements becomes out of point for India. But there is another point also. Unless we have a free and national Government; to hope for any comprehensive plan of country's industrialization is living in a fool's paradise. To demand this is like demanding the moon. What should we do then, in the near future? We have the prospects of a world diseased by economic nationalism and restrictionism of all kinds. India is faced with a contracting market and as such would it not be right for her to safeguard her trade interests by means of definite agreements with the countries she is in trade relations. This was the main justification that the Government advanced in favour of Indo-British agreements. Though the same logic should have led the Government to explore the possibilities of similar agreements with non-empire countries also, but for reasons known to them, excepting Japan in no other case the Government made any such attempt. This is then the chief argument for bilateralism. Against this the argument is put forward that the demand

for our raw materials of foreign countries is not such as can be easily given up and no fear need be encountered on this account. It is further pointed out that India, not only having an excess of exports over imports as a whole but having an export surplus in her trade with almost all countries which she trades with, is unsuitable for short term bilateral agreements. Such agreements are likely, if anything, to operate to the detriment of India's export trade as they result in mutual balancing of imports and exports between individual countries. Only a country with an unfavourable balance of trade can drive a hard bargain with another on the threat of reducing the imports. India's position was different, especially when her position as a supplier of food and raw materials, though strategic enough not to occasion any fear, yet was losing the old dominance owing to the emergence of many new sources of supply in Africa, and South America regarding a number of articles as cotton from Brazil, Egypt, Turkey, hides and skins from South America, and oil-seeds from Argentine. In the medley of all these conflicting arguments, opinions have naturally differed about the exact policy to be followed. Whereas the Government supported by some students of Indian economics have cast their verdict against a policy of bilateralism*, there has been a strong economic and popular opinion in the country in favour of it. It was this opinion which was voiced in the Legislative Assembly in its resolution passed in 1936 rejecting the Ottawa agreement and recommending to the Government to investigate the possibility of entering into bilateral trade treaties with the several countries with which India traded. So far as the Government was concerned, it must be said that it has not been consistent in its professions and practice. If it was worthwhile to have an agreement

*See India and Imperial Preference: Madan and Indian Fiscal Policy: Adarkar.

with United Kingdom it was on the same ground not less worthwhile to have tried the same thing in case of other countries. But the fact is that the Indian Government marked more to safeguard British interests in a time of distress and difficulty rather than the Indian. Still there are more honest opinions against adopting any policy of bilateralism in India, it must be admitted. However our opinion in the matter is inclined not on the side of any total rejection of such a policy for India. In fact much would depend upon conditions of world trade as they emerge after the war. There is no doubt that from a long period point of view and in the interest of world's economic health bilateralism is not a desirable feature. It is not the symptom of any healthy planning in economic life so much as of providing an artificial breathing to a diseased body. Looked from this more basic view point, it is the symptom of the decaying capitalist economy struggling to survive. Still we cannot rule out the possibility of our being forced to adopt bilateralism from a short-period point of view and in mere self-defence. Anyway a balance will have to be struck in keeping with the actual situation that may face us between the permanent objective of developing the economic life of the country without fittering away our natural resources on one hand and safeguarding the short period interests of the country's trade on the other.

CHAPTER XXIV.

CURRENCY AND EXCHANGE.

I

Towards the silver standard:—At the close of the Mogul Empire, judged by the standards of the time, India was economically a progressive country which implied a sound system of currency also. Both gold as well as silver coins circulated in the country, former being the preference of the Hindu kings and the latter of the Muslim. Since Akbar's time Gold Mohur and silver rupee of identical weight (175 grains troy) were the units of currency. Though both the coins were unrelated to each other and thus a parallel rather than a double standard prevailed, but the alleviating feature was that they bore a fixed ratio to the 'dam', the copper coin of the Empire. In the south, however, where the influence of the Moguls did not reach, silver as a currency was unknown, and the Gold Pagoda was the standard of value and medium of exchange as well and continued to be so till the time of the E.I. Company.

With the disruption of the Moghul Empire a chaotic condition arose in currency matters as in others. A number of independent currencies (both good and bad) and a number of units without any relation with one another became the mark of the time. There was no uniform and generally accepted currency in the land and the money chargers who carried on the business of exchanging one kind of money for another had their hey-day. It was, therefore, for the East India Company to set things right in the interests of her own trade as well as the general economic conditions prevailing in the country. In their famous despatch of 1806 the Directors of the Company declared themselves in favour of silver-

monometallism with rupee of 180 grains 11/12ths fine as the standard coin. In the meanwhile the three Presidencies into which the country was divided for purposes of administration, had changed the parallel standard of the Moghuls into a double standard by fixing a legal ratio of exchange between the mohur, the pagoda, and the rupee. These Presidencies experienced great difficulties in maintaining the double standard as the market prices of the two metals fluctuated away from the mint prices. Still the Provinces opposed the Directors' suggestion for monometallism, though so far as the establishment of uniform currency was in question they agreed with the court. Madras was the first in adopting the silver rupee of 180 grains troy 11/12ths fine in 1818 and was followed by Bombay in 1824 and Bengal in 1833. Thus by 1833 the uniformity of coinage was an accomplished fact. And it was only in 1835, two years after the establishment of centralized administration in India when the Imperial Government wanted a common Imperial coin in the whole country, that an Act of the Imperial Government established a silver standard with a common currency, the new rupee of 180 grains 11/12ths fine. Gold was henceforward demonitised, though mints for its coinage remained open. India had been placed on the silver standard now. Mints were opened to the free coinage of silver. The value of the silver bullion in the rupee and its legal value were the same. This Act remained in force upto 1893.

Demand for Gold standard:—The adoption of the silver standard in 1835 though was a measure of great currency reform, but in the dynamics of the changing situation, it soon proved to be inadequate. At this time India was experiencing a change over from kind economy to cash economy on the one hand, and an expanding trade on the other. This resulted in an increased demand for cash which, however, was not being fulfilled, for a number

of reasons. Silver which was the basis of Indian currency did not flow into India from outside in required quantity.* The production of silver after 1850 could not keep pace with the world demand for it, was another difficulty. Then a large part of the imported silver which was also coined was abstracted from monetary to non-monetary purposes. All this, therefore, resulted in a condition of monetary stringency. And want of credit currency because of meagre banking development in the country removed also from the range of possibilities the only alternative means to mitigate the prevailing shortage of money that was so severely felt. To solve this difficulty, therefore, there was put forward the suggestion of adopting gold standard instead of silver. This was the genesis of country's demand for the substitution of silver monometallism by that of gold. The demand, however, did not find favour with the Government who hit upon another method of meeting the increasing demand for money. The silver rupee was to be supplemented by a Government paper currency, and accordingly the Paper currency Act of 1861 was passed.

But the paper currency did not prove the panacea it was avowed to be, and the demand for currency continued to grow. The cotton boom in the country owing to the American Civil War was an important factor in this growing demand. The inadequacy of the currency thus felt was made good by increased imports of gold which was employed for monetary purposes, though it was not legal tender. The demand for introducing the gold standard also gathered strength. It was supported by the three chambers of commerce, Bombay, Bengal and Madras. Sir Charles Trevelyan also pronounced

*First, European countries prohibited exports of silver, later on when prohibitions were removed even then precious metals did not flow into India because local revenues were sufficient to pay for the local purchases of merchandise. Only when the latter exceeded the former there were imports. But when purchases increased shortage of production of silver came in the way. Thus silver difficulty persisted for one reason or another.

his judgment in favour of making gold as the standard of value in India. The Secretary of State for India, however, opposed the introduction of a gold standard, and ultimately on his suggestion the Government of India, which, however, was favourably disposed towards the gold standard, issued a Notification in November, 1864 which proclaimed that "sovereigns and half-sovereigns coined at any authorised Royal unit in England or Australia of current weight shall be received in all the treasuries of British India and its dependencies in payment of sums due to Government, as the equivalent of 10 and 5 rupees respectively and to such sovereigns and half-sovereigns shall, whenever available at any Government Treasury, be paid at the same rates to any person willing to receive them in payment of claims against the Government." This notification, however, remained in operative as the real par between the sovereign and the rupee was somewhat above Rs. 10. The pressure upon the Government, therefore, continued. The result was the appointment of the Mansfield Commission to inquire into the "operation of the existing currency arrangements under the 1861 Act and to report upon the advantages of having a gold standard for the country." The Commission came to the conclusion that paper currency had failed to establish itself as the circulating media in the country but gold was becoming more and more popular and therefore it recommended that gold currency should also become a legal tender. The Government, however, did not adopt the Commission's recommendations. It, by means of a Notification issued on 28 October, 1868, simply altered the rate of rupee-sovereign exchange from Rs. 10 to Rs. 10-8-0 in order to bring it in accord with the market rate. Even this correction of the rate, however, failed to induce any flow of gold into circulation. And though by the natural course of events the currency difficulties had subsided and; therefore; no further pressure was brought to bear upon

the Government of India to adopt the gold standard, yet the movement for it had not died out. This became all the more clear when in 1872 Sir R. Temple, when he became the Finance Minister of India, submitted a memorandum advocating the establishment of gold standard and currency in the country. The Government, for reasons best known to themselves, however, did not take any action in the matter. Thus came to an end the first period in the currency history of India in which demand for a gold standard and currency was put up to solve the currency troubles of the times though in vain. As already remarked his demand in favour of the gold standard, however, survived the original cause which gave rise to it, and there came on the scene other factors that made it more and more persistent though without any better results.

The end of the silver-standard :—In the currency history of India, the year 1873 marked the beginning of a very important event. Uptil now the rate of exchange between England and India had been very stable, in spite of the fact that the two countries were on different standards of currency. The rupee sterling exchange seldom deviated from the normal rate of 1s. 10½d. for Re. 1. After 1873, however, this stability was disturbed. An idea of this disturbance can be had by looking at the fall of the rupee-exchange rate. In 1871 the rate of exchange was 2s. for Re. 1 and in 1892 it fell to the low level of about 1s. 2d. only. The cause of this great fall in the rupee-sterling exchange was the great depreciation that had come in the price of silver which fell from 58d. per ounce in 1875 to 52½d. in 1879, 43d. in 1888, 37½d. in 1892 and 27d. in 1899. This rapid depreciation in the price of silver can be traced to the fact that on the one hand several European countries, *e.g.*, Norway, Sweden, Denmark, Holland, France, Belgium, Switzerland, Italy, Russia, and Austria, led by Germany in 1871 demonetized silver by closing

their mints to its free coinage and thus threw a large quantity of the white metal on the market. There took place at the same time a great increase in the production of silver from new mines and owing to improved processes. On the other hand demand for gold was increasing as the countries of Europe and the United States were taking to it as the only basis of their standard of money. The supply of gold, however, was on the decline. Thus an increased supply and reduced demand for silver on the one hand and a decreased supply and an increased demand for gold on the other could have only one result of depreciating the value of silver in terms of gold. And this was made all the more possible because the compensatory action* of a bimetallic system, under which the divergence between the relative values (market) of the two metals if not altogether mitigated is at least minimised, was also absent in this period, following the year 1873, as bimetallism as a system of currency had ceased to exist now. Under these circumstances depreciation of silver was only natural and the depreciated metal began to flow on a huge scale into silver standard countries, and India more than ever became a sink for silver, which, as it came in, was largely coined into rupees by the Indian mints. The fall of rupee-exchange was the inevitable consequence.

This fall in the rupee-sterling exchange rate created a number of difficulties. First, the burden of the Government of India regarding the payment of Home charges to be made in gold increased with every fall in the gold-value of the rupee. The burden was felt all the more because the payments to be made on this account were

* Under bimetallism if the supply of one of the two metals increases, then there takes place an inflow of this metal into currency thus reducing its supply as bullion and at the same time there takes place an outflow of the other metal from currency thus increasing its supply as bullion. The effect of this inflow and outflow of two metals into and from currency makes the divergence in the relative market value of the two metals either out of question or much less than it would otherwise be.

also not fixed but increasing. This very adversely affected the finances of the Government. The Government, therefore, resorted to increased taxation which meant a greater burden on the people at least so long as there did not take place an adjustment of prices to the changed situation. This was then the second evil that resulted from the falling exchange. Coming to its effect on the export and the import trade of the country, it was argued that a falling exchange was an advantage to the Indian exporter. But it must not be forgotten in this connection as well, that the advantage could only be temporary until the prices had registered a rise and an adjustment had come about. After such an adjustment also, the employer class could continue to gain because of the lag that always exists between rising prices and the wages of the labourers, but this gain of the employers would be at the cost of the wage-earners only which always form a much larger section of the population of any country. The advantage to the exporter was, however, counter-balanced by disadvantage to the importer. But leaving aside the question of temporary gains and losses to exports and imports respectively, there was the more important question of an element of uncertainty being introduced in the foreign trade of the country due to the fluctuations in the rate of exchange. In this connection it is significant to point out that 74 per cent of the total imports of India came from gold-using countries and, therefore, the disadvantages of uncertainty was applicable to an overwhelming part of the country's import trade. Another unfavourable influence of a heavy fall in exchange was noticed regarding the investment of British Capital in India which was hampered because of the attendant risks of investing capital in a silver-using country when silver was a depreciating metal. Not only every fall in the price of silver made the return uncertain when drawn in gold, but also reduced the capit alvalue of the investment in terms of gold, which was naturally

the unit in which the foreign investor measured all his returns and his out-lays. Lastly, the fall of exchange resulted in much loss to the European members of the Civil Service in India as they had to make gold remittances in support of their families who were often left behind in England. These, in brief, were the evils of the currency system which resulted from a falling rate of exchange and the necessity to reform the system so as to set them right was most urgent.

We have already seen how there had already arisen a movement in the country in favour of having a gold-standard and Sir R. Temple's was the first concrete plan put forth in this connection on which the Government of India had not taken any action. The second plan for the introduction of a gold currency was that of Colonel J. T. Smith, the Mint Master of India. As the plan was an effective remedy for the following exchange, there was a considerable support forthcoming in its favour. The Bengal Chamber of Commerce through its resolution of 1876 supported the Smith plan and in the meanwhile urged upon the Government to suspend the free coinage of rupees by Indian mints. The Calcutta Trades Association also favoured a similar step on the part of the Government. The Government of India, however, in its despatch of October 13, 1876 to the Secretary of State for India favoured the policy of masterly inactivity. But the pressure of a falling exchange increased and the Government of India had to reconsider its attitude in the matter. In another despatch of 1878, it, therefore, proposed to the Secretary of State that the seigniorage on the coming of silver rupees should be so increased as to make the cost of a rupee equal to the fixed value to be given to it in terms of gold coins by the Government. Thus the instability in the rate of exchange was to be removed, and by agreeing to receive British or British Indian gold coin in payment for any demands of the Government at rates

to be fixed from time to time by the Government till it could be permanently fixed at 2 shillings for 1 Re. a certain limited scope was also to be given for the introduction and use of gold coin in the country. These proposals of the Government of India, however, were turned down by the Secretary of State on the recommendation of a committee that was appointed for the purpose of examining them. The only alternative now left for the Government of India was to pin her faith to the success of international conferences which were held between 1878 and 1899 to solve the difficulties that European countries and the United States had to face on account of the depreciation of silver of which consisted a large proportion of their total metallic money. The aim of these international conferences was to establish a bimetallic par between gold and silver by restoring international bimetallism. But due to the fear that the establishment of international bimetallism would result in an increased circulation of silver against which there existed a lot of prejudice now, these conferences did not meet with success. It is a fact that if England had induced herself to agree to adopt a bimetallic system, other countries would have followed her lead in spite of their prejudice in favour of gold. But England was the least prepared to give such a lead and hence the failure of the international conferences was an inevitable result. This was a rude shock to the hopes of the Government of India.

The Herschell Committee :—In the meanwhile the value of silver continued to fall and the repeal of the Sherman Act by the United States Government after the Brussels Conference in June, 1892 made the situation still worse. Under this Act the United States Government was required to purchase a certain amount of silver annually for coinage. It was in such circumstances when the silver crisis showed signs of all the more deepening that the Government of India approached the Secretary

of State in 1892 when Brussels Conference was still in session to close the Indian units to the free coinage of silver with the object of eventually introducing the gold standard in case the above conference ended in a fiasco. Accordingly in 1892 Herschell Committee was appointed. The Brussels Conference failed when the Herschell Committee was still sitting. The Committee, instead of demonetization of silver and the establishment of a gold standard currency, recommended a sort of limping standard. There was to be no free mintage of either gold or silver, and the rupee was to continue to be unlimited legal tender, gold being used only partially for currency purposes during the period of transition, at the end of which a full fledged gold standard was to be adopted.

The Government of India accepted the above recommendations. According to an Act of 1893, mints were closed to the free coinage of silver, only the Government retaining power to coin rupees on its own account. By means of a notification gold coin and bullion presented at Indian units were made convertible into rupees at the rate of 16d. to the rupee. By another notification receipt of gold sovereigns and half-sovereigns was authorised in payment of public dues at the same rate. And by a third notification currency notes could be issued in exchange for gold coin or bullion, at the same rate. Thus the exchange value of the rupee was to be prevented from a further fall and people were to be made familiar with the use of gold sovereigns. The silver-standard that India had adopted in 1835 had now come to an end, and the introduction of a gold standard still hang in the balançe. The main defect of these arrangements was that through the Government was under obligation to receive gold in exchange for rupees; there was no corresponding obligation on her to give gold in exchange for rupees.

The Fowler Committee:—As a result of the closing of mints to the free coinage of silver, the rupee-sterling exchange rate ultimately began to register a rise. In 1894 the average exchange value of the rupee was 1s. $1\frac{1}{2}$d. By 1898 it had risen to nearly 1s. 4d. Whereas in the first few years after the closure, there was more than enough of the currency in the country, by the end of 1898 the situation had altogether reversed and there arose a great outcry against the scarcity of money. The Government of India thought that it was the right moment to end the transitional period and place the Indian currency on a gold basis by introducing the use of gold in the country which would relieve also monetary stringency*. The appointment of the Fowler Committee (1898) was the result.

The Lindsay Scheme:—The Fowler Committee had before it a number of proposals. One of them was the Lindsay Scheme. Under it the Government was required to offer to sell, without limit, on the one hand, rupee drafts on India at the rate of 16 $\frac{1}{16}$ d. a rupee and on the other hand, sterling drafts on London at the rate of 15 $\frac{3}{4}$d. a rupee. Necessary funds for the purpose were to be kept both in India as well as in England and were to be known as Gold Standard-Reserves. The funds for the London section of the Reserve were to be met by borrowing in gold to the extent of ten million sterling, by the receipts realized by the sale of drafts on India by the Secretary of State in London, and by the receipts realized by the sale of silver bullion in rupees melted down. Similarly the Indian section of the Reserve was to be kept in funds by the receipts realized by the sale of drafts on London and by the coinage when necessary, of new rupees from bullion purchased by the

*It was to adjudicate in the dispute between the Government of India and Mr. Lindsay, the former desiring additions by gold coinage and the latter by rupee coinage, that the Fowler Committee was called into being. Ambedkar in, 'The Problem of the Rupee.'

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London Gold Standard office and sent to India. It should be obvious that by adopting the above mechanism of selling sterling drafts on London by the Government in India and rupee drafts on India by Secretary of State in London, the rate of exchange was to be prevented either from falling below 1s. $3\frac{3}{4}$d. or from rising above 1s. $4\frac{1}{16}$d. a rupee. The Fowler Committee did not favour the scheme and rejected it because it would base India's gold standard on a few million pounds worth of gold in London for all time to come.

The Probyn Scheme:—This was another scheme that the Fowler Committee was called upon to consider. The scheme was that the existing Rs. 10,000 notes should be called in, and, in future, notes of Rs. 10,000 payable at the option of the holder either in gold or silver rupees, should be issued in exchange for gold alone (tendered to the Government), gold in the form of bars being specially reserved to meet any such notes outstanding.* The underlying idea of this proposal was that in this way imports of gold for currency purposes would be encouraged and in course of time there would be sufficient gold in reserve to enable the Government to pay in gold for all rupees and currency notes when presented in sums of Rs. 10,000 and over. As notes and rupees in such large amounts would be converted into gold only for making international payments, so far as internal circulation was concerned rupee would remain the medium of exchange. Obviously it was a scheme of a gold standard without a gold currency and Mr. Probyn's ground for suggesting it was his realization of the difficulty of putting gold currency into circulation in a vast country like India where people possessed a great hoarding habit also. The

*Mr. Probyn also recommended that legislative effect should be given to the notification of 1893 under which Public could obtain rupees at mints or treasuries in exchange for gold at 1s. 4d. Under certain conditions Government was also to be empowered to give gold for rupees or rupee notes at 1s. 4d. if presented in amounts of Rs. 10,000.

Fowler Committte, howevex, did not agree with Mr. Probyn in the matter of India's hoarding habit which was in any case not an insuperable difficulty, and felt fortified by the knowledge that gold currency had existed in the country even in the past also. Mr. Probyn's scheme was, therefore, turned down by the Committee.

Other proposals:—There were other proposals also before the Committee to consider. The Government of India had also placed one in which she advocated that the policy of contraction of currency should continue to operate because in its opinion this was the real cause for the rise in the exchange that came about after the closure of the mints. This contraction was to take place by withdrawing rupees from circulation and melting them and the bullion so realized should be sold for gold to be added to a gold reserve which should be created in India with the help of money borrowed in England. The ultimate idea of the Government was no doubt to adopt a gold standard for the country but it was to be done only when the exchange has reached the level of 1s. 4d. a rupee, and not till then. The Committee did not support the Government view about the cause of the rise in the exchange rate which in its opinion was more complicated and obscure and hence the Government proposal naturally fell down.

There was also the proposal to adopt the silver standard again which was criticized by the Committee on the lines of the Herschell Committee. Hence it was not accepted.

Recommendations of the Committee:—Considering the whole question of a suitable currency system for India, the Fowler Committee recommended the establishment of a gold standard with gold currency based on free inflow and outflow of gold. To achieve this object the following proposals were put forth: (*i*) Sovereigns

and half-sovereigns should be made legal tender in India and Indian mints should be opened to their free coinage. (*ii*) The mints should remain closed to the free coinage of silver, and the rupee might continue to be an unlimited legal tender. (*iii*) The Exchange rate should be fixed at 1s. 4d. a rupee as prices had adjusted to it. (*iv*) The Government should continue to give rupees in exchange for gold, but they should not bind themselves to give gold in exchange for rupees as it might create a heavy and inconvenient demand for gold. (*iv*) A separate reserve different from the Paper Currency Reserve should be created out of the profits that might arise as a result of any future coming of silver rupees but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public. (*vi*) The Government should be prepared to make gold available, particularly for export when the balance of trade went against India. This gold was to come from the special Reserve suggested above as well as from other reserves of gold, but eventually also from circulation a large part of which would be in form of gold because of the introduction of gold standard.

Thus the Fowler Committee favoured the adoption of what is known as the Limping Standard prevailing in the United States and the countries forming the Latin Union. The main characteristic of this standard was that both gold and silver were unlimited legal tender with a fixed legal ratio, and mints were open to the free coinage of gold only.

The Committee claimed several advantages for the system recommended by them. A large part of India's foreign trade was with the gold standard countries. Hence adoption of gold standard would mean an end of all uncertainty about trade with these countries. This would also mean an attraction for foreign capital to come

to India, and circulation of gold coins would further result in removing the stringency of currency in the country.

Government's Action on the Committee's suggestions :—Most of the suggestions made by the Committee were already in force. Mints were closed to the free coinage of rupees, rupee was an unlimited legal tender; the exchange rate had reached the level of 1s. 4d. and been maintained thereat for some months; and the Government was already giving rupees for gold. What remained to be done was making the sovereigns and half-sovereigns legal tender in India; opening mints to their free coinage; and establishing a separate Gold Reserve. The Act of 1899 made sovereigns and half-sovereigns legal tender throughout India at the ratio recommended by the Committee. A Gold Standard Reserve was formed in 1900 out of the profits of the coinage of rupees on Government account; and so far as opening of gold mint in India was concerned the plan was dropped because of the opposition of the British Treasury. Thus the first essential condition for gold standard was not fulfilled.

From Gold to Gold Exchange Standard :—We have seen that the corner-stone of the recommendations of the Fowler Committee was the adoption of gold standard with a gold currency for India, but by an unkind turn of events that took place in the following years India came to possess a standard of currency which neither the Fowler Committee nor the Government of India, while adopting the various measures that somewhat half-consciously led to this new standard, had ever contemplated. Let us trace this process of drift and diversion before we attempt to lay down the features of the new standard which came to be known as the gold-exchange standard.

Circulation of gold :—The Fowler Committee was faced with the two-fold problem of relieving the

monetary stringency in the country on the one hand and suggesting a stable standard of currency on the other. The establishment of a gold standard with a gold currency was calculated to achieve the first objective and to achieve the second the Committee had supplemented its main recommendation about the gold-standard with others. But the aim of having a gold currency for India was not achieved. During the years 1899-1900 the Government of India in pursuance of the Fowler Committtee recommendation put sovereigns and half-sovereigns into circulation which were now legal tender. But a fairly large percentage of these gold coins which were put into circulation through currency offices, post-offices, district treasuries, and railways, came back to the Government. And on this basis the Government arrived at the conclusion that the public did not like gold currency and left all attempts to encourage its circulation in future. The Government was, however, not justified in making such a hasty conclusion. There were other factors that deserved attention. The Government on the one hand had made the attempt at a very inopportune moment when, due to one of the worst famines India experienced, a period of great scarcity prevailed in the country and people required for their use much smaller units of currency than sovereigns and half-sovereigns were. In 1900, for the first time after the closure of the mints in 1893, the Government of India, on the other hand, started on the disastrous career of coining fresh rupees. This of course relieved the stringency* in the money-market of India but made any future circulation of gold currency in the country an impossibility. According to the well-known Gresham's law bad money (which was the silver rupee) drove out of circulation the

*Before this by the Act of 1898 arrangement was made for the issue of paper currency in India against gold received by the sale of Council Bills in London and set apart as part of the Indian Currency Reserve to relieve the monetary stringency.

good money (which was the sovereign and half-sovereign). If the Government was really serious in promoting the circulation of gold currency in India it should have continued the attempt and further issue of rupees should not have been undertaken and, if it was felt necessary for the purpose, the obligation to give rupees for notes and sovereigns should have been made optional. But none of these things was done and the first and the most important objective of the Fowler Committee, that of having a gold currency, was thus defeated though through a loophole which the Committee had itself, in her moments of weak intellect, left. Had the Committee totally stopped the issue of new silver rupees, such a consummation would have been avoided.

Question of gold mint:—This was, however, the first though the most important departure from the currency policy that the Committee had suggested. There were others also. We have already remarked how the other recommendation of the Committee about a gold mint in India was also given up due to the opposition of the British Treasury. The question of a gold mint in India was again taken up by the Government of India under pressure from the Supreme Legislative Council (Sir V. Thackersay's resolution moved in 1911) in 1912 and the result was the sanction of the Secretary of State to issue a ten-rupee gold coin from the Indian mint. But the Government of India before taking action on it wanted the opinion of the Chamberlain Commission which showed no objection to it provided several 'ifs' were fulfilled. What happened to this afterwards belongs to a later history in Indian currency which shall command our attention elsewhere.

The Gold Standard Reserve:—The third important recommendation of the Committee was regarding the formation of a Gold reserve out of the profits from

silver-coinage which began first of all in 1900 as already noticed. The Secretary of State for India, however, in opposition to the Fowler Committee as well as the Government of India decided that the profits resulting from the coining of rupees should be remitted to London, and not kept in India, where they would be invested in sterling securities instead of being accumulated in the shape of a special gold reserve as the Committee desired. It may be mentioned here that the silver required for coining fresh rupees was to be purchased with the gold in the Paper Currency Reserve* and representing the proceeds of the sale of Council Drafts against which notes were already issued in India. The profits on the coinage which necessarily first took the form of rupees were converted into sterling in London, the rupees which represented the profits being issued in India to meet the Council Drafts sold in London. In 1906 a rupee branch of the gold-standard reserve was also created in India by diverting part of the profits of the coinage for this purpose. Another departure from the suggestion of the Fowler Committee regarding the gold-standard reserve was that in 1907 the Secretary of State decided to set aside half the profits of the coinage of rupees for railway development in India until the gold-standard reserve amounted to £20 million.

The Council Drafts :—We have noticed how the chief recommendation of the Fowler Committee concerning the gold standard with a gold currency had been given a go-by. It remains for us how to trace the course of events that ultimately led to the establishment of the gold-exchange standard. For this purpose it is necessary to refer in brief the working of the Council Drafts system with which the mechanism of the gold-exchange standard was very intimately connected.

*The silver bullion purchased with this gold while in transit and in process of coinage was to be treated as part of the Paper Currency Reserve.

The origin of the Council Drafts system lies in the peculiar position of the Government of India under which it has to make remittances of funds from India to England. Since the days of the East India Company, the method of receiving money in England in return for bills (payable in rupees) on the Government of India to effect remittances of funds from India to England were in vogue. When the Government of India was transferred to the Crown, the system was continued by the Secretary of State in Council from which it also took the name of Council Bills. These were, therefore, the Bills drawn by the Secretary of State for India in London on the Government of India in rupees and sold in London for gold. The purchasers of the Bills received payment from the Government of India in rupees in India. Upto 1893 the Council Bills were sold only to the extent required for transferring funds to meet the Home Charges of the Indian Government to London. For some years after 1893 a negative use was made of the system for forcing up the exchange value of the rupee by a temporary cessation of the sale of the Council Drafts. In 1898, as referred already, their use was made not only to provide the Secretary of State with funds but also to expand the currency in India. The Act of 1898 authorised the Secretary of State to sell Council Bills and against the gold, so received and to be set apart at the Bank of England as a part of the Paper Currency Reserve, notes were to be issued in India. It was this gold accumulated in London which later on (1900) was to be used to purchase silver for fresh coinage of rupees. A further step was taken in 1904 when the Secretary of State announced his intention of offering Council Bills for sale without limit of amount at the price of 1s. 4⅛d. to prevent a rise in the exchange rate above this rate. As this rate was not found to be effective at all times to prevent the export of sovereigns to India for which the Indian Government found no use,

it was decided to offer Telegraphic Transfers against sovereigns in transit from Egypt and Australia to India, the rate for the Transfers being between 1s. 4d. and 1s. $4\frac{1}{32}$d. so as to make it worth the while for the owner of such sovereigns to divert them from India to London. As this regular sale of Council Bills meant a constant demand for rupees in India, and as fresh coinage of rupees could not always keep pace with the demand for currency a special reserve of coined rupees was created in the shape of the silver or rupee branch of the gold-standard reserve in 1906 as mentioned earlier. This reserve was intended to keep an unlimited offer of rupees in exchange for sovereigns at the rate of 1s. 4d. a rupee. The Notification of 1893 which had authorised the issue of rupees or notes against the tender of gold as distinguished from British coin in gold was also withdrawn. The regular sale of Council Bills in London was necessitated to obviate the unnecessary inconvenience and expenditure involved in the practice of shipping to London gold accumulated in various reserves in India. These Council Bills were sold to transfer the Gold Standard Reserve in India to London, as well as to remit the profits of mintage for conversion into sterling. Thus was laid the foundation of a mechanism which was an integral part of the working of the gold-exchange standard of India.

The mechanism was completed in 1907-8 when forced by the circumstances the Government of India had ultimately to sell under instructions from the Secretary of State Reverse Councils or Sterling Drafts on London at the rate of 1s. 29/32d. per rupee which were paid off in London by the Secretary of State partly by realising some of the securities belonging to the Gold Standard Reserve and partly by releasing gold from the Paper Currency Reserve against the transfer of rupees to the Indian branch of that reserve. The Secretary of State floated a loan of £4,300,000 to enable him to meet his

own expenses. This resulted in a great depletion of the gold reserves of the Government of India both in India and England. Because before taking to the sale of Reverse Councils, the Government of India had agreed to offer gold from the Paper Currency Reserve for export purposes, on the condition that not more than £10,000 was to be given on any day to any one individual or firm. Thus the gold reserve in India also suffered a reduction. Now what made all this necessary? The rupee exchange was experiencing a fall due to an unfavourable balance of trade as it was an year of deficient rainfall and consequent reduced production and exports. The decline in the purchasing capacity of Europe resulting from unemployment and slack business further aggravated the situation by reducing demand for Indian produce. Increased imports of silver owing to a fall in its price, on the other hand, made the unfavourable balance all the more unfavourable. All this depreciated the rupee-exchange leading to the sale of reverse 'councils' by the Government of India to arrest this depreciation. And thus we find that the mechanism of the gold-exchange standard was completed in the course of certain steps that the Government of India had to take under the force of circumstances. India was given a gold-exchange-standard rather unwillingly; instead of a gold standard and a gold currency at which the Fowler Committee aimed.

Lessons of the crisis:—The crisis of 1907-8 had many lessons to teach to the Indian Government and accordingly it made the following proposals to the Secretary of State for India. The proposals made in 1909 related to an expansion of the Gold Reserve with a minimum of £25 millions and its being maintained in a more liquid form *i.e.*, in gold and not in sterling securities. The Secretary of State tardily recognized the necessity of keeping a minimum of £25,00,000 in the Gold Standard Reserve but could not agree to keep

more than £1 million in liquid form, and even this was to be invested in short-term loans or held in bank deposits. Another proposal of the Government of India was that at least two-thirds of the gold held in the Paper Currency Reserve should be kept in India because they believed that the use of sovereigns was becoming more and more popular in India, and, therefore, it was desirable to increase gold holdings in India in place of rupees in the Reserve. The Secretary of State, however, did not agree. He harped upon the same old argument that not only in times of weak exchange when the rate fell to the export point, the gold held in London would be available to support the exchange, but even in the earlier stages when it would be desirable to support the exchange by suspending the sale of Council Bills the gold in the Paper Currency Reserve would be available for meeting his own expenses. He on the other hand did not believe that in the event of weak exchange gold in circulation would not be available for export purposes as was the view of the Government of India. Thus the Secretary of State's unwise insistence stood in the way of taking the lessons of 1907-8 crisis to heart.

Main Features of the Gold Exchange Standard :—We have traced the process of aimless drift which ultimately landed the currency system of our country in a position which was never contemplated. Let us now sum up in brief the main features of this new position. Keynes in his Indian Currency and Finance summarises them as under :—

(1) The rupee was unlimited legal tender and so far as law was concerned inconvertible into gold.

(2) Sovereigns and half-sovereigns were also unlimited legal tender in India at the rate of 1s. 4d. a rupee or Rs. 15 per sovereign.

(3) As a matter of administrative practice (not of any legal obligation) the Government of India were willing to give sovereigns for rupees at that rate, but the practice was sometimes suspended.

(4) As a matter of administrative practice the Government was willing to sell rupees or rupee currency, payable in Calcutta or Bombay, in exchange for gold or sovereigns or sterling tendered in London at the maximum rate of 1s. $4\frac{1}{8}$d. per rupee. This was known as the sale of Council Bills.*

(5) As a matter of administrative practice the Government was willing to sell gold or sovereigns or sterling payable in London in exchange for rupees tendered in Calcutta or Bombay at the minimum rate of 1s. 3 29/32d. a rupee. This was called the sale of Reverse Councils because the object and procedure of such sales was exactly the reverse of that of sale of Council Bills.

It should be noted that Nos. 4 and 5 were the vital parts of the mechanism of the gold-exchange standard as it was through them that rupee and gold or gold coin were made freely convertible into each other. For this purpose the Secretary of State for India made use of the funds (in gold) he had in the shape of the Gold Standard Reserve, Paper Currency Reserve, and his own cash Balances. On the other hand the Government of India had at its disposal the Rupee portion of the Gold Standard Reserve, the Indian portion of the Paper Currency Reserve, and the cash Balances of the

*The undertaking of the Government under the notification of 1893 to issue to the public rupees and currency notes in unlimited quantities for gold bullion and sovereigns, and for sovereigns only after its withdrawal; afterwards also helped in preventing a rise of the exchange rate above 1s. 4d.

Government of India. It is thus clear that the functions of these two reserves and the cash balances were hopelessly mixed together which was not very proper. In fact the Gold Standard Reserve was the only fund that ought to have been used for the conversion of rupee into gold or gold coin and *vice versa*, whereas the Paper Currency Reserve was meant to maintain the convertibility of currency notes and the cash Balances to meet the day to day expenses. From what has been said of the exchange standard, it should also be clear that maintenance of the exchange rate at a given point (1s. 4d. a rupee in the present case) was an essential feature of the working of this system of currency. About the usefulness of the standard the opinion in the country has been divided. According to some the system justified itself by its flexibility, and adaptability as well as by its cheapness*, whereas according to others the system was neither economic nor conducive to stability.†

The Chamberlain Commission:—Though the experts differed as to the way the currency problems of the country were being handled by the Government, the public opinion was highly critical of it. Therefore, in April, 1913 a Commission with Mr. (later Sir) Austen Chamberlain as the Chairman was appointed which reported in February, 1914. The recommendations of the Commission were:—

(1) The Gold Exchange Standard has worked satisfactorily and should be continued.

(2) The circulation of a gold currency was neither necessary nor advantageous for India. Rupees and currency notes were the only suitable currency.

*Article on Monetary System and Policy in Economic Problems of Modern India. Edited by R. K. Mukerjee.

†The Problem of the Rupee by Ambedkar.

(3) Though a gold mint was not required in India but it may be established to meet the Indian sentiment.

(4) The Gold Exchange Reserve should be expanded to support the exchange rate. It should be kept in form of gold only and in London. The Rupee branch should be abolished. The profits of coinage for some time at least should not be diverted to any other use. A much larger proportion of Reserve should be held in actual gold.

(5) The Government should definitely undertake to sell Reverse Councils in India at the rate of 1s. $3\frac{29}{32}$d. a rupee whenever called upon to do so.

Thus the Commission gave its blessings to the then existing system of gold-exchange standard. But due to the intervention of war the whole situation changed and there was no occasion for the Government to give any consideration to them.

(*Change in the basis of currency*)

The 1914-18 War and the Indian Currency:— With the coming of the war the first important effect was that the whole basis of our currency changed. As exports of gold on private account were stopped for all practical purposes by Britain and the use of sovereigns and half-sovereigns for non-currency purposes was made unlawful, though currency and bank notes were still convertible into the gold coins of the realm, Britain ceased to have a gold standard for international purposes and as rupee was convertible into sterling only, therefore India came to possess a sterling-exchange standard instead of a gold-exchange standard.

(*The weakening exchange*)—

Another immediate effect of the war was a dislocation of trade and production and a loss of confidence by

the public which was shown by the withdrawals of Savings Bank Deposits, and demand for encashment of notes in large amounts. This resulted in the weakening of the rupee-exchange. But prompt measures on the part of the Government in the shape of meeting withdrawals of Savings Bank money, converting currency notes first in silver rupees as well as gold, but after August 4, 1914 in rupees only; restored the public confidence. Besides this, by the sale of Reverse Councils by the Government, though after a little of hesitation, the fall in the exchange rate was also checked. Thus by February 1915, the condition of normalcy was brought about and upto the end of 1916, the currency mechanism of the country functioned in a satisfactory way.

Increased demand for Indian Currency:—This period of normalcy was, however, not going to last very long and troubles were to arise from other quarters very soon. The central fact of these new difficulties was that whereas the demand for Indian currency, which included the rupee also, began to increase, satisfaction of this increased demand became a difficult proposition. The increased demand for Indian currency arose due to a number of factors. First, was the rise in exports from India because of the Allies' demand for their war-needs accompanied by a decline in our imports resulting thereby in a favourable balance of trade in favour of India. Secondly, the Government of India's war-time expenditure, including that incurred on behalf of His Majesty's Government as well as some of the Dominions and Colonies, was also an important factor. Now so far as the financing of exports goes, in the pre-war period imports of precious metals (gold and silver) was an important means, but war-time restrictions on the exports of these metals imposed in foreign countries adversely affected their imports into India. Sale of Council Bills in London was the other alternative on which greater and greater reliance

had to be placed and this meant to that extent greater and greater demand for Indian currency.

(Rise in the price of Silver)—

To meet this increased demand for Indian currency, there were only two ways that were open, issue of rupees and issue of currency notes. Now so far as the issue of fresh rupees was concerned, though it was resorted to but there arose a great difficulty in this connection due to a progressive rise in the price of silver. To have an idea of this rise it may be necessary to point out that the highest price of silver in 1915 was 27 pence per ounce, in 1916 the maximum reached 37 pence per ounce, in August 1917, it exceeded 43 pence per ounce, (the price at which the value of the bullion in the rupee was equal to its value as coin at the rate of 1s. 4d. a rupee), in September, 1917 it rose to 55 pence per ounce and by December, 1919 it went up to 78 pence per ounce, the highest limit being reached in February, 1920 when the price was 89 pence per ounce. This great rise in the price of silver was the result on the one hand of an increased demand specially from India and China mainly for currency as there was a shortage of gold and an universal anxiety to conserve its supplies. On the other hand there was a great shortage of the supply also. Another factor was the movement of the dollar-sterling exchange in favour of dollar after it was decontrolled in March, 1919 because a rise in the sterling price of silver meant a corresponding rise in its rupee price also. The effect of this was a great difficulty for the Government of India and as a result it adopted certain measures on the one hand to meet this increasing demand for currency and on the other to present the demand itself from increasing any further.

(Measures by the Government)—

(1) Limitation of Council Drafts—The Secretary of State for India stopped the sale of these Drafts without

any limit, fixing the limit between Rs. 120 and Rs. 130 lakhs of rupees per week. This meant so much less demand for Indian currency.

(2) **Control of Exports from India**—To achieve this object the sale of Council Drafts was restricted to a few approved banks and firms who, by these restrictions, were compelled to confine their activities to the exports required by the Allies for war purposes. This also meant reduced demand for Indian currency.

(3) **Raising the Exchange Rate**—As offering rupees at the rate of 1s. 4d. a rupee meant more rupees and hence more loss to the Government with rising prices of silver, the Secretary of State for India had to raise the rate with the rise in the sterling price of silver. Thus on January 3, 1917 the Exchange rate stood at 1s. 4¼d.; on 28th August, 1917 at 1s. 5d. on 12th April, 1918, 1s. 6d.; on May 13, 1919 at 1s. 8d.; on 12th August, 1919 at 1s. 10d.; on 15th September, 1919, at 2s.; on 22nd November, 1919 at 2s. 2d.; and on 12th December, 1919 at 2s. 4d. The rate further went up in the first few months of 1920 also. This, it must be noted, meant an end of the sterling-exchange system.

(4) **Purchase of Silver**—To increase the supply of rupees, the Government also purchased silver for coinage purposes. On September 3, 1917, all private imports into and exports from India of silver were prohibited. The Government managed to purchase 200 million ounces of pure silver from U.S.A. as a result of her negotiations with the U.S.A. Government.

(5) **Economy of Silver**—This was made possible by issuing 1 and 2½ rupee-notes in December, 1917 and by issuing two-anna, four-anna and eight-anna nickle coins in the place of the silver pieces.

(6) **Protection of Silver Coins**—The use of gold and silver coins for other than currency purposes was

made unlawful on June 29, 1917 to keep the circulation of coins intact.

(7) **Use of Gold Currency**—According to an ordinance of June 29, 1917 all gold imported into India was to be sold to the Government which was to be coined into sovereigns in India. For this purpose a gold mint was established in August 1918, which was, however, closed in April, 1919.

(8) **Issue of Paper Currency**—Need for currency was met by increasing the issue of paper currency which was facilitated by putting restrictions on its convertibility such as limiting the daily issues of rupees to single tenderers of notes or suspending extra-legal facilities for conversion.

(9) **Financial Measures**—The Government on the one hand tried to curtail other than war expenditure as much as possible, and on the other raised more money through fresh taxation and loans from the public.

(*Babington Committee*)—

From what has been said above, it must be more than clear that during the period of war the currency system of the country was totally disturbed. The whole question was to be considered afresh and for this purpose a Committee under the presidentship of Sir Henry Babington Smith was appointed by the Secretary of State on 30th May, 1919. The main recommendations of the Committee were the following:—

(1) The rupee should be linked not to sterling but to gold at the rate of 2s. gold per rupee so that even a rise in the price of silver above 43 pence per ounce would not disturb the fixed rate. The Committee in its view had thus made provision for all possible rise in the price of silver. The Committee preferred

gold to sterling as the latter was depreciating and was expected to further depreciate which would involve depreciation of rupee also which was not in the interest of maintaining the token character of rupee. Then, linking the rupee to sterling would also mean fluctuation of rupee in terms of gold with sterling and the relative value of the rupee and the sovereign (gold coin) would vary consequently thus making the circulation of rupee and sovereign side by side impossible though both were legal tender.

(2) When the new exchange of 2s. gold is established, war-time restrictions on the free import and export of silver and gold should be removed.

(3) Branch of the Royal mint should be re-opened at Bombay for coining of sovereigns.

(4) The Government should withdraw its oligation to give rupees for sovereigns as a safeguard against the possible rise of the price of silver.

(5) No limit should be placed on the Gold Standard Reserve and a considerable part of it should be kept in gold (half of it India), the rest being invested in securities.

(6) Council Drafts should be sold in excess of the Secretary of State's own requirements by competitive tender, and that in times of weak exchange the Government should sell Reverse Councils.

(Minute of Dissent)—

The late Sir Dadaboy Dalal, one of the members of the Committee, however, disagreed with his colleagues and signed a separate minute of dissent. He was

opposed to fixing the rate of exchange at such a high level as it was to mean a great disturbance to relations between debtors and creditors, a loss to exporters and in the rupee value of the invested reserves in sterling securities as well as of gold held as part of the metallic reserves against the note-issue. He argued that changes in standards of money should not be lightly made. Lastly he also maintained that the rise in the price of silver which was the main ground for fixing a high exchange rate could have been effectively prevented if the Government had lifted the war-time embargo on the export of silver which she could have easily spared. He further suggested that stopping fresh coinage of silver and restricting sale of Council Bills to the requirements of the Secretary of State would have also been helpful in meeting the situation.

(*Government's action*)--

The Government, however, accepted the recommendations of the majority and took the following steps to put them into force by issuing a number of notifications on February, 1920.

(1) The Exchange-value of the rupee was fixed at 2s. gold.

(2) Restrictions on the imports of silver (not exports) as well as on the melting of silver and gold coins were removed. Import duty on silver was also abolished. On June 21, restrictions on the import of gold bullion and foreign coin were removed. Restrictions on the use of silver for making payments on behalf of Government were withdrawn, and extra-legal facilities for conversion of notes into rupees were renewed.

(3) The obligation on the part of the Government to give rupees for sovereigns and half-sovereigns was withdrawn.

(4) By an ordinance of June 21, 1920 sovereigns and half-sovereigns ceased to be legal tender in payment or on account, the Government only being prepared to receive them at the ratio of Rs. 15 for 21 days on the expiry of which restrictions on the imports of British gold coin were also removed. Then by the Indian Coinage Act of 1920, the legal character of the sovereigns and half-sovereigns at the rate of Rs. 10 and Rs. 5 respectively was restored. As the market price of sovereign was higher than Rs. 10, it never functioned as currency at the new rate. Therefore opening of a gold mint was thought unnecessary. Here it may be remarked that the Government first by requisitioning all imports of gold on private account and then from September, 1919 by a series of their fortnightly sales of gold tried to reduce the premium the gold commanded in the market. But when the Smith Committee fixed the 2s. gold rate, gold was still at a premium. To reduce this premium the Government again sold a large quantity of gold between February, 1920 and September, 1920 and were stopped in October, 1920. As soon as the gold sales were stopped its price which had been somewhat controlled again went up. Thus in this matter the failure of the Government was obvious.

(5) It was announced that Council Drafts and telegraphic transfers would be offered by open tender every week and that in future Reverse Councils would be sold in times of weak exchange at a rate based an the cost of sending gold from India to London.

Breakdown of the new gold ratio of 2s. :— We have already remarked that by the announcement of February 2, 1920 the rupee-exchange rate had been fixed at 2s. gold. The immediate effect of fixing such a high rate was a rise in the rupee-sterling exchange, sterling depreciation in terms of gold being continued and rupee being linked to gold. The rush of the exporters to sell their export bills to avoid loss by any further rise in the rupee exchange (sterling) was another factor that contributed to its rise. Thus on 11th February, 1920 the rupee-sterling exchange reached the un-precedented figure of 2s. 10¼d. a rupee. But thereafter the situation underwent a change and the historic fall in the exchange rate began. There were several causes for this. The rush of the exporters had abated. Demand for sterling increased, *e.g.*, many commercial firms and private persons hastened to make their remittances to England so as to profit by the high exchange; large orders for foreign plant and machinery were placed and the price was sent in advance in the post-war boom of company floatations. Speculators' demand in the hope of future fall was also a factor. On the top of all this came the unfavourable trade balance. The result was a downward trend of the rupee exchange. The Government came out with an offer to sell the Reverse Councils to prevent the fall. But the fall went on and the Government realising the futility of maintaining the 2s. gold exchange decided to maintain it at 2s. sterling from June 24, 1920. The rate still continued to fall and all that the Government could do was to go on reducing their own rates with every fall in the market rate, their only principle being that the official rate was fixed at a somewhat higher level. Even this could not go to an indefinite extent and at the end of September, 1920 the Government abandoned all attempts at regulation. All this experimentation involved much loss to the Government as well as business community

because of deflation of money that was brought about as a result of the sale of Reverse Councils and their placing reliance on Government's maintaining a high exchange. Many importers were ruined. The sale of Reverse Councils on this occasion amounted to £55,382,000 to pay which amount sterling securities and Treasury Bills of the Paper Currency Reserve had to be sold at a great loss because they were bought at the rate of Rs. 15 to the pound and they were sold at Rs. 7 to Rs. 10 per pound. When the Government left the attempt to control the exchange, it came down from 1s. 10d. in September to 1s. $5\frac{1}{2}$d. in December, 1920. The position did not improve in 1921 also and in December, 1921 the exchange stood at the low figure 1s. $3\frac{7}{8}$d. and in April, 1922 it further deteriorated to 1s. $3\frac{1}{8}$d. a rupee.

(*Cause of the breakdown*)—

This breakdown in the Government attempt to maintain the high exchange was inherent in the situation which the Babington Smith Committee hopelessly misread and the Government persisted in perpetuating. The main plank in the armoury of the Committee's arguments for a high exchange was to avoid the trouble from future rise in the silver price. But in this connection the Committee ought to have displayed better understanding. The real cause responsible for the fall of rupee was its lower purchasing power in comparison to dollar and pound-sterling, but the Committee paid no attention to this. Besides this, the rise in the silver prices was mostly speculative and not permanent and it is difficult to guess how the Committee failed to take notice of this fact. Then, the high price of silver, was partly result of the depreciation of the rupee as well as sterling in terms of commodities in general. To solve the problem of keeping the rupee a token coin and thus maintaining it in circulation, what was necessary was the reduction in the fineness of the rupee and not raising its exchange value. It is

clear, therefore, that the Committee bungled, and even the Government of India in adopting the recommendations of the Committee did not show better wisdom. First, there was no danger of the rupee altogether disappearing from circulation even if it did not remain a token coin and its intrinsic value became higher than its nominal value, because the volume of rupees in circulation was enormous. Further, at a time when the Government was contemplating the adoption of the Committee's recommendations, the price of silver was also falling and had gone down to the level of 44d. an ounce. All this leads us to the conclusion that first the Babington Smith Committee itself made a mistake in recommending such a high value of the rupee, secondly the mistake of the Government in adopting the recommendation was still greater, and the greatest of all the mistakes which the Government committed was its unwise insistence in attempting to maintain the high value even when the impossibility of the task had become clear. The task was impossible because the exchange value of the rupee was fixed at a level much higher than its purchasing power justified. And this therefore, was the main cause of the breakdown that occurred.

(*Rise to* 1*s*. 6*d*.)—

It has been already remarked that the rate of exchange continued to fall, after the Government abandoned all attempts to control it, for some time. Of course the Government had no other option according to its light but to sit with folded hands in a spirit of watchful expectancy. But soon the situation began to take a turn. In 1922-23 the export trade of the country showed an improvement as the purchasing capacity of the European countries increased. There has also taken place a lot of contraction of currency in India during all these years when the Government was making an attempt to prevent the exchange from falling. The contraction continued in

1921-22 and 1922-23 also by the transfer of sterling securities held in London to the Secretary of State's cash balances and by the discharge of Indian Treasury Bills held in the reserve. The combined effect of this contraction of currency and rise in exports was to raise the rate of exchange slowly but steadily. In September, 1923 the rupee was equivalent to 1s. 3⅛d. gold and the pre-war ratio of 1s. 4d. gold would have been easily restored as was urged by the Indian Merchant's Chamber so that no interests would have gained or lost at the cost or in favour of another. But the Government was not prepared to do it. The exchange continued to rise and it reached the level of 1s. 6d. sterling in October, 1924. After this the Government prevented the further rise in the ratio. It was with this end in view that expansion of currency was undertaken. The purchase of sterling, a new method of remitting funds to the Secretary of State in place of the old method of the sale of Council Bills was one way that was adopted for the purpose of currency expansion. Under this system the Government of India purchased sterling in London through the Imperial Bank from exchange banks and others, thus possessing the Government in possession of sterling in London and exchange banks and others in possession of rupees in India. The exchange value of the rupee reached 1s. 6d. gold in April, 1925 when England returned to the gold standard after the war, and it remained or rather was held at this point by the Government upto 21st September, 1931 when England again went off the gold standard. In the meanwhile in response to repeated requests the Government of India had appointed on 25th August, 1925 a Royal Commission on Indian Currency and Exchange under the presidency of Lt. Commander Hilton Young.

CHAPTER XXV.

CURRENCY AND EXCHANGE—(*Continued*).

The Report of the Hilton Young Commission was published on 4th August, 1926. The recommendations of the Committee may be classified under three main headings (*i*) The Monetary Standard (*ii*) The Ratio, (*iii*) The Central Bank. It is with the first two that we are concerned at present.

Defects of the Gold Exchange Standard:— Before making its own recommendations regarding a suitable monetary standard for the country, the Commission pointed out the defects of the exchange standard.

The system was far from simple. The relation of the rupee to gold through sterling was not very obvious and it was to be maintained by a complicated mechanism of sale of Council and Reverse Council Bills which a layman could not easily understand. Rupees, currency notes, and sovereigns and half-sovereigns—all the three were unlimited legal tender, but the last, a full-valued coin, did not circulate at all and the currency notes were made convertible into rupees.

Another defect of the system was that it did not ensure an automatic expansion or contraction of the currency which depended upon the whims of the Government. The way to expand currency was to sell Council Bills in London to be paid in rupees in India or as afterwards to purchase sterling in India, and give rupees in return, but when rupees were paid out of Government Treasury Balances it involved no expansion of currency. Similarly, Reverse Councils sold in India if were paid in London not from Paper Currency Reserve but from borrowings from the Gold Standard Reserve, no contraction of currency was involved. Hence expansion as well as contraction was not automatic and necessary.

There were three kinds of reserves maintained by the country—the Paper Currency, the Gold Standard and the Banking Reserves. Then there were the Cash Balances of the Government. In theory all of them had their special functions—the Paper Currency Reserve was to ensure convertibility of currency notes, the Gold Standard Reserve to ensure redemption of rupee into gold and maintain the exchange rate, and the Banking Reserves to ensure a sound banking system in the country. The Cash Balances of the Government were meant on the other hand to meet its day to day needs for expenditure. In practice, however, the functions of the Paper Currency and Gold Standard Reserves as well as the Government Cash Balances were mixed together, and between the Currency and the Banking Reserves there was little co-ordination. Thus Paper Currency Reserve was utilised also for maintaining exchange stability and purchasing silver to coin fresh rupees and the Gold Standard Reserve functioned only as a second line of defence. This created a lot of confusion. Besides this, so far as the location as well as composition of the reserves was concerned, all was not well. The Gold Standard Reserve was not kept all in gold actually but was invested in sterling securities mostly, nor was it located in India. In 1906 a rupee branch had of course been opened but according to the recommendation of the Chamberlain Commission, the only one to be given effect, was abolished. The Paper Currency Reserve was also partly held in London which looked simply ridiculous as its aim was to convert notes into rupees in India and not England.

It was on these grounds that the Hilton Young Commission rejected the Gold Exchange Standard. The system possessed a few other drawbacks also. First, it was never evolved according to a planned and consistent policy and had a legal basis only in part, the central mechanism on which its working depended (Sale of

Council and Reverse Council Bills) being based merely on administrative practice rather than any statutory obligation. Secondly, the sale of Council Bills was always operated in such a way that it had the effect of checking the flow of gold to India. In the face of all these defects, the system was supposed to possess the two-fold advantages of cheapness and stability in Exchange. It was claimed to be cheap in the sense that without the use of gold it gave the advantages of a gold standard. But even these points have been disputed by the opponents of the system* and to say that it inspired the confidence in the public that a simple and direct gold standard would have done was of course wrong. And again even granting that it succeeded in achieving the rupee exchange stability, there was the more important problem of internal stability also and this the system did not solve. In altogether, it was right that India wanted a better system of currency than that of the Exchange Standard as it had already experienced.

Some alternatives :—The other task before the Commission was to dispose of the alternatives of an improved sterling or gold exchange standard or a gold standard with a gold currency. The Commission rejected all of them. It was not wise to link rupee to sterling and tie its fortune to it. Because it would amount to mortgaging the currency mind of the country with another at a distance of 7,000 miles and making India play a second fiddle to British interests. There was also another point against it and it was common with the gold exchange standard that, after the price of silver had crossed a certain limit, as it did during the 1914-8 war, the silver rupee would not remain in circulation. Further, public confidence in India required conversion of internal currency into gold for internal purposes which was not possible under the gold-exchange standard. Thus, how-

*See Ambedkar: The Problem of the Rupee.

ever, much the above two systems might be perfected, they suffered from certain inherent limitations and were not suited to Indian needs.

For a gold standard with a gold currency also, the Commission had objection precisely on the ground that a gold currency would create a demand for gold which not only will be difficult to meet but would also bring about a dislocation in the world trade and industry by producing a fall in the gold prices all over the world which would prove disastrous to India also. Then this would also be accompanied by a fall in the price of silver as the currency demand for it would go down and this would involve hardship to the poor in India who possessed their hoards mostly in silver. Besides, other countries like China, would follow suit and all the difficulties pointed out above would be aggravated. Hence gold standard with a gold currency was also rejected by the Commission.

The Gold Bullion Standard:—What was the alternative that the Commission envisaged then? It was that of a gold standard without a gold currency and technically known as the Gold Bullion Standard. Accordingly the Commission made the following recommendations:

(*i*) Silver rupees and currency notes should remain as, then, the current medium of circulation.

(*ii*) Gold should not circulate as money and sovereigns and half-sovereigns should be demonetized. This would have the effect of checking any flow of gold from gold reserves for currency purposes and thus our credit structure would be strengthened.

(*iii*) Rupees and currency notes should be made convertible into gold for all purposes by imposing a statutory obligation upon the

Currency Authority for that purpose at a fixed rate and then at least 400 ounces of gold is demanded.

(*iv*) The buying rate for gold was fixed at Rs. 21-3-10 per tola of fine gold. This was the par value of the rupee fixed by the Commission at 1s. 6d. a rupee (8.47 grains of fine gold) or Rs. 13.37 for £1. The selling rates were so fixed as to prevent any loss from arising to the Currency authority on account of importing gold from London to replenish its stock of gold. Thus three selling rates were fixed. (*a*) When the T. T. rate on London was at or above the upper gold point 1s. 6 13/64d.) the selling rate for delivery in Bombay was to be the same as the buying rate *viz*., Rs. 21-3-10 per tola. When exchange rate would reach this point, it would be the gold import point for India and it would be profitable for outsiders to send gold to India rather than to send exchange. When the T.T. rate on London was below the upper gold point, (*b*) the selling rate for delivery in London was to be Rs. 21-7-9 (allowing for cost of transport to London); (*c*) while for delivery in Bombay it was to be Rs. 21-11-9 (allowing for twice the cost of transport). The net result of these different rates was to prevent the Currency Authority from being the cheapest market for gold, and also free it from selling gold for non-monetary purposes which function did not belong to it in fact.

(*v*) To rid the system of the threat involved in a rise in the price of silver, the new

currency notes should not be made legally convertible into rupees, though the promise for the already issued notes should be kept. But in practice full facilities should be given for such conversion if the people desired to inspire confidence in them. The currency authority was also to be placed under the statutory obligation to convert all notes, excepting the one-rupee notes (the Commission recommended their re-issue), on demand into notes of smaller denominations or silver rupees at the option of the currency authority.

(*vi*) To inspire confidence in the public in the value and stability of currency it was necessary to make its gold basis more important. Therefore, the Commission recommended the issue of savings certificates' redeemable in three or five years in legal tender money or gold at the option of the holder, and which should yield an attractive rate of interest also. This was calculated to promote savings also.

(*vii*) The Paper Currency and the Gold Standard Reserves should be combined into one currency reserve which should be regulated in matter of composition and proportion by statute. The Commission suggested the proportional reserve system, not less than 40 per cent being in gold and gold-securities. The gold holding of the reserve should be raised immediately to 20 per cent and 25 per cent within 10 years. The silver holding on the other hand should be substantially reduced from Rs. 85 Crores (on 30 April, 1926) to Rs. 25 crores in the period of ten years. Of

> the gold holding at least one-half should be held in India. The balance of the reserve was to be held in the Government of India rupee securities and self-liquidating trade bills, the former being limited to 25% of the reserve or Rs. 50 crores whichever was less. The created securities should be replaced by marketable securities within ten years. In respect of the contractibility of the rupee circulation, a liability of Rs. 50 crores was fixed.

Thus, the Commission recommended the Gold Bullion standard to be adopted for India and claimed for it all the advantages of a gold standard with the additional claim that wastage of gold involved in the actual circulation of gold coin was in this case avoided. In April, 1925 it was some such system to which England also returned. But it must be remarked that in England sovereign was not demonetized. Now, so far as the claims of the Commission for the standard it suggested are concerned, there are two important points that need consideration. First, how far the advantages supposed to belong to the new standard were real. The greatest point of a gold standard is that the country's currency, if not of gold, must be directly linked to gold. In theory the Commission assured this by placing a statutory obligation on the currency authority to purchase and sell gold at fixed rates. But it was argued and rightly that the large quantity (400 ounces) that was fixed as the minimum in which gold can be sold and the rates which were fixed for the purpose were such as were to render in practice this assurance more or less useless, in one case because the amount was too large for the masses and in the other because buying gold when it is cheapest and selling when it is dearest would make buying and selling transactions rare in India. Further the offer to sell gold at a more

favourable rate in London than in Bombay when exchange was below the upper goldpoint was also criticized on the ground that it encouraged delivery of gold in London. The second point was about the special conditions of India which are always an important factor in the matter of deciding the system of currency for a country. In an advanced country like England with an instructed public opinion, actual circulation of gold coin might not be necessary to make the currency system intelligible to the people and assure them in its stability. But in India with an overwhelmingly uneducated masses, gold coin was a necessity at least to start with. This was why almost all Indian witnesses before the Commission and even some European witnesses like Dr. Cannon and Dr. Gregory strongly urged upon the Commission to recommend a gold currency standard. But the fun of it was that the Commission though did not recommend a gold coin in the beginning said that it might be adopted later on though in its opinion it was never necessary. In fact the Commission argued that under the system they recommended in course of time sufficient gold reserve would be collected to warrant the introduction of gold currency if it was at all thought necessary. In its opinion immediate introduction of gold currency was to create a demand for gold that would result in great dislocation of trade and industry in the world which was not desirable.

To sum up this discussion we can say that though the Commission rendered a great service in rejecting the exchange standard and suggesting that Government control over currency should be ended, but it failed to provide a suitable system for the country in its place. In 1926, India would have done well in adopting a gold currency standard.

The Ratio question:—Another very important recommendation of the Commission related to stabilizing the value of the rupee, and the Commission after

examining the whole question fixed the ratio at 1s. 6d. Sir Purushottam Das Thakurdas in his minute of dissent, on the other hand, gave his verdict in favour of 1s. 4d. Thus began the well-known 1s. 6d. *vs.* 1s. 4d. controversy in the currency and exchange history of India which has been continued since then with great vigour and heat on the two sides.

The Hilton Young Commission advanced a number of arguments in favour of 1s. 6d. Their first point was that prices in India were adjusted to this rate as it had enjoyed an unbroken existence for over an year. On the basis of their examination of the Index-numbers also they reached the same conclusion. They also assumed (without showing any statistical evidence) that wages had been adjusted. Regarding the contracts, they said that as bulk of them were short term and were, therefore, not affected. For long-term contracts as those of land revenue they argued that rise in prices of agricultural prices since 1914 had considerably lightened the burden. They on the other hand had a number of objections against 1s. 4d. Prices and wages were not adjusted to this rate which also would mean a great burden to consumers as well as Government finances. The Commission, therefore, suggested the 1s. 6d. ratio.

Sir Purushottam Das Thakurdas, however, argued that the Government presented the Commission with a *fiat accompli* which it accepted. There was no adjustment of wages as well as prices to the higher ratio. It was a loss to Indian industry as exports would; till adjustment had taken place suffer and imports would get a bounty. The burden on debtors, who were largely agriculturists, was real as they owed debts contracted at a time of 1s. 4d. ratio. The 1s. 4d. ratio was the pre-war ratio which had broken down during the war and to which India should return as other countries

had also invariably done. The loss involved to public finances as well as to consumers who were not also producers of goods and who formed a small percentage of the total population was, in the opinion of Sir P. Thakurdas, not to be given any great importance. For all these reasons he was in favour of 1s. 4d. ratio.

Even without going into the intricacies of the argument whether 1s. 6d. was the right ratio or 1s. 4d., we must mention that, the country wanted the latter ratio and it was necessary that the Government should have given to it what it demanded. At the same time we have not to forget that a higher ratio has always been favoured by British commercial and industrial interests as well as British Officials in India who stand to gain on the one hand as consumers due to a fall in the price level in India consequent on a high exchange, and on the other as remitters of funds in form of profits or savings to England. Further, even when prices and wages were completely adjusted to the higher ratio, because mostly the capital expenditure of industrials in India was made in the time of 1s. 4d. ratio, they were to this extent handicapped in competing with their British rivals unless they carried on a process of decapitalisation which no company really relishes. And all these considerations must have weighed on the Government in the matter of taking the ratio to 1s. 6d. and not checking it at 1s. 4d. after October, 1924, is a fact that the Commission ought to have taken notice of. Anyway, the Commission recommended and the Government accepted the Commission's recommendation of 1s. 6d. and thus produced another fruitful ground for resentment in the public mind against the currency and exchange policy of the Government.

Government's action on the Report:—On 16th January, 1927, the Government published three bills embodying the Commission's recommendations.

They were: (1) The Currency Bill to amend the Coinage Act of 1906 and the Paper Currency Act of 1923, and to lay certain obligations upon the Government in regard to the purchase of gold and the sale of gold exchange; (2) The Bill to establish a Reserve Bank in India; (3) the Bill to amend the Imperial Bank of India Act. As the second Bill could not be passed, the third bill was not proceeded with. The first Bill was passed into an Act which gave legal recognition to 1s. 6d. rate that had been in operation since April, 1925 and for the first time in the history of Indian Currency imposed a statutory obligation upon the Government to prevent a fall in the rupee exchange. It was laid down in the Act that Government would purchase gold at Rs. 21-3-10 per tola in the form of bars not less than 40 tolas (15 oz.) and would sell gold or, at the option of the Government, sterling for immediate delivery in London at the same price subject to the condition that not less than 400 ounces of gold or sterling worth that amount of gold were demanded. In case of sale of sterling, however, normal cost of transport from Bombay to London was to be allowed for and a rate of 1s. 5·49/64d. was notified by the Government for the purpose. The Act also deprived sovereigns and half-sovereigns of their legal tender character but imposed upon the Government an obligation to receive these coins at its currency offices and treasuries at their bullion value which was Rs. 13-5-4 per sovereign of full weight. Thus was established a Gold Bullion cum-Sterling Exchange standard in India, since the Government could sell either gold or sterling at its option. Because sterling was on the gold basis, therefore, in practice it meant gold exchange standard. The exchange standard as set up by the Act of 1927 was superior to the former one in one respect only, that under it the Government was under the statutory obligation not only to purchase

gold but also sell gold or sterling at fixed rates. In other respects it suffered from the same defects as the old one.

Exchange during 1927-31:—The tendency of the rupee-exchange during all these years continued to be downward and the Government had to make special efforts, like increasing the Bank Rate, contracting currency, and issuing treasury Bills to Exchange Banks and other purchasers, to keep the exchange at 1s. 6d. ratio. All this gave point to the advocates of 1s. 4d. who still agitated for a reduction on the ground that so much manipulation on the part of the Government showed that the 1s. 6d. ratio had not yet adjusted. It is right that the world trade depression, which affected India, also aggravated the situation, but the share of the high ratio in the matter of falling balance of payments, and prices in India, as well as in checkmating recovery afterwards cannot be altogether refused.*

The Crisis of 1931:—Under the 1927 Currency Act, the Government bought gold and sold sterling at the lower gold point (1s. 5·49/64d.) till 19th September, 1931. On the 20th September an important event in the form of England going off the Gold Standard took place which had its repercussions on Indian Currency and Exchange. On 21st September the Governor-General promulgated an Ordinance suspending Governments' obligation to sell gold or sterling, but on the same day the Secretary of State announced the decision to maintain the rupee at 1s. 6d. sterling. On 24th September, the Governor-General promulgated yet another Ordinance, the Gold and Sterling Sales Regulation Ordinance, which repealed the previous one, technically restored the Currency Act of 1927, but in practice wanted to control the sale of sterling by laying down that sterling was to be sold to recognised banks, at the old rate

*See 'The Indian Monetary Policy' by B. P. Adarkar.

of 1s. 5·49/64d. and for financing normal trade requirements and contracts completed before 21st September, and reasonable personal and domestic purposes and not for financing imports of bullion or speculative exchange transactions. Thus we came to have a controlled sterling Exchange Standard. This control was felt necessary to protect the Government gold and sterling resources against an undue strain. The rupee was linked to sterling. But sterling was depreciating in terms of gold and naturally the rupee also followed suit. This resulted in raising the rupee-price of gold also. Towards the end of August 1931, the price of gold in the bullion market was at the figure of Rs. 21-13-3 per tola and in December, 1931, it shot up to Rs. 29-2-0 per tola. It rose to much higher figures after that. People found it profitable to sell gold and their economic distress encouraged them to avail of the opportunity. There began the much criticized gold-exports from our country and between the end of September, 1931 and the end of February, 1932, about Rs. 50 crores worth of gold was exported from India. The supply of sterling consequently increased, and the Government of India repealed the Gold and Sterling Sales Regulation Ordinance on 31st January, 1932. Technically the Currency Act of 1927 was fully restored, but in practice the Secretary of State's declaration to keep the rupee linked to sterling at 1s. 6d. held the ground.

Since 1931 up to the beginning of the present war, the currency and exchange history of India is a history of two important controversies, one ranging round the linking of the rupee to sterling which also covered the question of devaluation of the rupee, and the other round the exports of gold from India. Let us briefly examine both these problems in a dispassionate way.

The Linking of the Rupee to Sterling:—We have already remarked that when England went off the

Gold Standard, the rupee was linked to sterling and India was placed by an announcement of the Secretary of State for India on Sterling Exchange Standard, a standard against which the Hilton Young Commission had already given its verdict. This aroused much protest in the country against the action of the Government. First, the way in which the Secretary of State for India in such a summarily way changed the whole basis of the currency standard of the country without consulting the public opinion was highly condemnable and provided a very just ground for resentment and protest by any self-respecting people. India's criticism on this account was not surprising. Then, there was the question of the actual achievement made. How far linking the rupee to sterling was a wise step considering India's national interests.

Now, when England went off the Gold-Standard, there were three alternatives that India had before it: (*i*) Keeping the rupee linked to gold, (*ii*) Keeping the rupee linked to sterling, (*iii*) Leaving the rupee free. The Government of India chose the second alternative. Whether it was the right think to do or not, about this the opinion in the country was divided. Those who were in favour of the link put forth a number of arguments to support their view point. India had heavy sterling obligations and a considerable proportion of her international trade was with England and other countries on the sterling basis, therefore stability of rupee sterling rate was very important, and linking the rupee to sterling was the way to achieve such a stability in our exchange rate. Then as sterling depreciated in relation to gold and rupee was linked to sterling, the rupee would also undergo a fall in relation to gold and her export trade with gold standard countries would get a stimulus, no matter temporary. All these arguments had their force, but there were others also equally or perhaps more weighty

on the other side as well. The most potent argument on this side was that, first for a country like India with internal trade overwhelmingly larger than her foreign trade, the question of exchange stability was not so important as internal stability in prices and production, and secondly our exchange rate should not be a reflection of economic conditions of any other country, as it would be of England in case of the sterling link, but of our own country only. The economic conditions and exigencies of an industrialized country like England can hardly have anything in common with a backward country like India which is on her way to industrialization and, therefore, India should have been left free to adopt a rate of exchange suitable to her own requirements of foreign trade, which to a large extent was with countries outside the sterling block, and the internal price level. There were further points also. The advantage in respect of our exports to gold standard countries was to be set against the disadvantage in respect of imports from them as well as the Imperial preference that England would automatically get. By some the linking of the rupee to sterling at the particular rate of 1s. 6d. was also opposed on the ground that though it meant the depreciation of rupee in terms of gold, yet rupee was still over-valued in terms of sterling and it meant a disadvantage to India specially when yen and other currencies were devalued in terms of sterling. It was also maintained* that it was the rupee-sterling link at 1s. 6d. which was the cause of the huge outflow of gold from India which was not in India's interests. According to this view the currency authority undervalued the rupee in terms of sterling and hence there was the phenomenon of gold exports. As we shall notice in the following section this view of the cause of gold exports was not accepted by all. However, so far as the question

*The Rupee Sterling Ratio and the Export of Gold by B. R. Shenoy in 'Economic Problems of India' Vol. II, edited by R. K. Mukerjee. Also his article in Indian Journal of Economics in July, 1935.

of linking the rupee to sterling is concerned, we are inclined to the view that it was not in the country's interests. So also at a time when countries were going off the gold standard, and when our gold reserves were already inadequate for the purpose, the alternative of keeping the rupee on the gold basis* was out of question. The only and the right alternative† was, therefore, to have left the rupee free to find its own exchange rate and to manage it with a view to suit the requirements of the price and production structures of India. If it was difficult for the Government to decide upon this course in a moment of crisis in 1931 when international horizon was not clear, there was no justification for the Government for not having done so afterwards.

The Problem of Gold Exports:—As already pointed out, there began a regular outflow of gold from India after sterling's going off the gold standard and the rupee being linked to it. By the end of January, 1940, the total amount of gold thus exported amounted to Rs. 351.40 crores. What has been the cause of these huge exports of gold from India has been a subject of much controversy amongst economists**. Without, however, going into the intricacies of these controversies, we shall try to put the facts of the situation according to our own light. The first important point in relation to these gold exports was that the gold which flooded the Indian market was 'distress' gold. The effects of a high ratio and the world economic depression had reduced the economic position of the Indian masses to the brink of bankruptcy. When, therefore, as a result of our going off the gold with the sterling, the rupee price of gold

*For detailed discussion see Prof. Adarkar's article in the Indian Journal of Economics, January, 1936.

†Linking the rupee to sterling at a rate below 1s. 6d. was another alternative.

**See Indian Journal of Economics July, 1935 and January, 1936 for the controversy between Professor B. R. Shenoy and Professor B. P. Adarkar.

shot up, people hurried forward to dislodge their gold hoardings and take advantage of the high price of gold that ruled in the market. The second important point was that all this gold went out of India to foreign countries. This was the result of the internal rupee prices of gold being lower than the external ones. For this difference a number of factors were responsible. The villagers' ignorance about the world price of gold was one, pressure of intensive propaganda on the part of bullion dealers in the up country centres causing quick dishoarding was another, and enormous accumulated supply of the metal was the third. It cannot also be denied that in the determination of the external rupee-price of gold the rupee-sterling exchange at 1s. 6d. was definitely a conditioning factor. A ratio higher than this would have certainly made the external rupee-price of gold more unfavourable and thus checked gold exports from the country, while a ratio lower that this would have turned the external rupee-price of gold more favourable thus encouraging the gold exports. To sum up it would not be incorrect to say that these huge exports of gold were an indication of our people's economic malaise who sought relief by taking advantage of the rising prices of gold caused by our going off the gold standard with the sterling.

The next point about the gold exports was, as to whether they were in the best interests of our country or not? About this also the opinion has differed from one economist to another. According to some they were looked upon as a God-sent gift which gave people an opportunity to convert their dead stock in gold into liquid purchasing power that could be used to relieve their distress and meet their obligations. The high price of gold meant a capital gain to the sellers. The effect of these exports on Government finances and the country's balance of trade has been favourable. With the help of the sterling resources accumulated as a result of gold exports and pur-

chased by the Government by paying rupees and currency notes, on the one hand it had been possible for the Government to cancel foreign obligations and thus do a capital good to the country, and on the other more currency had been passed into internal circulation which was invested in Treasury Bills, bank deposits, and postal cash certificates which brought about a lowering of the rate of interest thereby helping the economic expansion of the country. According to this view, had the Government purchased all the gold to strengthen their reserves as was suggested by the opponents of the view, the gold holdings of the Government would have increased to an excessive limit for which there was no use. Similarly an export duty on gold was not justified as it would have fallen mostly on the sellers who were more anxious sellers in their distress than the foreign purchaser.

The arguments on the other side were that by allowing exports of gold from the country, the Government let go a very good opportunity to strengthen its gold reserves and instead piled up resources in a depreciating currency, sterling. It was also maintained that by parting with gold at a time when it was appreciating in value, the sellers of gold individually as well as the whole nation collectively suffered a loss that should have been avoided. So far as the question of converting the dead stock of gold into active purchasing power was concerned, there was no disagreement. But the upholders of the latter view maintained that the better way of doing this was to delink the rupee and place an embargo on the gold exports from the country, the Government and later on the Reserve Bank coming forward to purchase all the gold offered for sale and then making use of it according to necessity for strengthening gold resources, liquidating foreign debts and meeting home charges. In our opinion also, this would have been the only correct and wise policy for the Government to pursue because it would have

ensured all the benefits of converting gold into active money and at the same time keeping a control on our gold and making use of it only in a planned and well-thought out way instead of frittering it away in a haphazard and unco-ordinated manner as actually happened.

Devaluation of the Rupee:—We have referred in a preceding section to the ratio controversy and noticed that the nationalist opinion in the country was opposed to stabilizing the rupee at 1s. 6d., but the Government of India paid no heed to it. When the question of establishing a Reserve Bank for India came to the front, the controversy was once again revived. Sir Purushottam Das Thakurdas put up a strong plea in favour of lowering the ratio and held up the example of Australia, New Zealand, and the United States which had devaluated their currencies to raise prices and improve their trade balances. But all this produced little effect on our masters in the White Hall and when the Reserve Bank of India Act was passed, it contained an obligation for the Bank to maintain the 1s. 6d. ratio between fixed upper and lower points. By clause 40, the Bank is required to sell sterling to any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon* and pays the purchase price in legal tender currency for immediate delivery in London at a rate not below 1s. 5·49/64d. for a rupee, thus providing against a fall in the rupee rate below this figure.. On the other hand clause 41 makes it necessary for the Bank to buy sterling from any person who makes a demand in that behalf at any of its offices for immediate delivery in London at a rate not higher than 1s. 6 3/16d. a rupee, thus preventing a rise in the exchange above this point. The minimum amount of sterling for purchase and sale has been fixed at ten thousand

*After the occupation of Burma by Japan the office of the R. B. has been closed.

pounds. Thus the 1s. 6d. rate was legalized and India was put on a sterling-exchange standard.

This arrangement naturally failed to satisfy the nation's demand for currency and exchange which, therefore, continued to be persistently made. Thus a tussel between the Government and the public opinion went on, the former denying the necessity of any change, and the latter insisting upon its importance all the while. The agitation for devaluation gathered force again in 1938 when as a result of the economic recession of 1937-38 the exchange weakened and touched the statutory lower point of 1s. 5·49/64d. in the first week of June, 1938. The Congress Working Committee also passed a resolution in favour of exchange reduction but the Government was adamant and only satisfied itself by issuing communiques and rejecting the people's demand. In the meanwhile the present war broke out and the whole situation underwent a change. Before proceeding to examine the effects of war on our currency and exchange, let us in brief examine the case of devaluation as advanced by both the sides.

The one patent argument put forward by the Government was that when international situation was not clear any tampering with the ratio was not wise. First, as has been argued by some, at least by the end of 1936, a majority of the world's currencies had regained their stability in terms of gold, and from the view point of prices, employment, and production also conditions of comparative stability have been achieved. Hence the international horizon was sufficiently clear to revise the problem of Indian currency and exchange on a permanent basis*. Secondly, when the needs of national economy definitely demanded a change, no pretext on grounds of international situation could justify the Government's attitude. Other countries in the world had carried

*The Indian Monetary Policy: B. P. Adarkar.

on the necessary manipulation of their exchange policy to suit their respective interests without caring for the international situation, and there was no reason why India only should have waited.

The other argument of the Government was that the 1s. 6d. ratio was the best ratio. If, however, we examine the factual side of the question we are bound to reach a different conclusion altogether. Ever since the stabilization of the rupee, in our balance of payments, there began a sudden disruption. Though linking the rupee to sterling meant a little devaluation but it did not prove to be sufficient, as well as it gave no advantage to her exports so far as the sterling area was concerned. Thus the situation as regards our foreign trade was not conducive to external equilibrium and called for a further devaluation of the rupee.* And not only externally, but internally also the logic of the events demanded the same remedy. Ever since 1922 in fact Indian prices showed a downward tendency, and even after our going off gold in 1931, though there was a little relief, the recovery was not commensurate with what it was in England or other countries. It was this high exchange ratio which was responsible for this unsatisfactory state of affairs and the fun of the matter was that when England herself followed the policy of currency devaluation to right her economic depression, India was prevented from doing so and was forced to follow the traditional path of exchange stability that brought ruin to the whole national economy. The situation was further aggravated due to the greater rigidity of cost structure in India which did not adjust to declining prices. So far as the Government's arguments in favour of 1s. 6d. were based in its favourable influence on the Government's finances, as well as on the rise in the prices of imported

*See Devaluation of the Rupee by Ganguli in Economic Problems of Modern India.

goods it would cause; it should be sufficient to point out that first it is ridiculous to put such trifles against the claims of a whole national economy, and secondly in the long run even Government finances and people's purchasing power would not have remained uneffected by the expansionary and wholesome effect that devaluation was bound to produce on the economic position of the country. To sum up our discussion on the ratio problem, therefore, we have in the end to remark that devaluation was highly necessary to rehabilitate the declining economy of the country and the main charge against the Government was that it always refused to view the problem from such a wider and longer perspective which was the only right perspective in such matters.

Effects of War on Indian Currency and Exchange:—In September, 1939, however, the present world war broke out. It produced on the whole an expansionary effect on India's trade and industry and the rupee-sterling exchange lightened and the Reserve Bank was able to purchase large quantities of sterling for meeting Home charges and strengthening the currency reserves. The rupee, however, depreciated in relation to the dollar, yen and other currencies following the slump in the pound. Afterwards with the pegging of sterling to dollar at 4.02, the rupee-dollar exchange has been steady at Rs. 332 per 100 dollars. The rupee-sterling exchange has also been firm all this time.

Exchange Control:—The war has necessitated a well-regulated control in the purchase and sale of the foreign exchange business. The authority regarding such a control has been delegated by the Government to the Exchange Control Department of the Reserve Bank of India. The aim of this control has been the conservation of foreign exchanges by following a policy of exchange regulation that is in keeping with that of the Bank of England

and of other Empire countries. For the purpose of exercising this control certain Indian Joint Stock Banks and the Exchange Banks have been licensed as authorised dealers who are instructed by the Reserve Bank to do business only on the basis of the rates of the London Exchange Control combined with the current rupee rate for sterling. Between the countries that made up the sterling area, and which consisted of most of the Empire countries, remittances have been allowed freely, while strict control has been exercised over remittances from the sterling area to any country outside it, limiting them to genuine trade purposes, travelling expenses and personal requirements. The regulations regarding the exchange control have been tightened up from time to time as the need arose. Thus in March 1940, the Bank of England introduced an export control system under which restrictions were imposed in India also on the export of certain commodities to U.S.A. and a few other countries (known as 'hard currency' countries) unless the shipper produced satisfactory evidence that he was receiving 'hard currency' and not sterling for his shipment. In June, 1940 this export control scheme was extended to cover all commodities shipped to U.S.A. and Switzerland, and in June 1941 it was further extended to a number of other countries. Similarly in May 1940, the Government introduced a system of licensing imports according to which no sales of foreign exchange against imports that were subject to license were to be allowed unless the importer had first received an import license from the Government. During the year 1941-42 these restrictions were extended to cover all articles from all foreign countries, with the exception of a few goods from Canada. Restrictions on remittances for other than trade purposes were also increased. Control was also established over the purchase of securities from foreigners and export of securities required the Reserve Banks permission.

Restrictions on export and import of gold:— Exports as well as imports of gold also required a license from the Reserve Bank. Licenses for imports were generally given, while those for exports were also granted provided the gold was consigned to the Bank of England or if consigned to America, the relative dollar proceeds were sold to the Federal Reserve Bank on behalf of the Bank of England. England was anxious to conserve all gold resources, though a similar need for India has all along been criminally neglected. The price of gold has gone much higher due to war and exports of gold from the country have increased. The Reserve Bank though has piled up the sterling resources without any limit, the stock of gold with the Bank has remained stationary. This has evoked much adverse criticism from the public which has advocated an embargo on export of gold and its purchase by the Reserve Bank.

Increased demand for rupee and other silver coins:—Up to the summer of 1940, the public confidence in the paper currency of the country was generally maintained. But the collapse of France on the one hand and the entry of Italy and later on Japan into the war on the other, set in a reaction and the public's demand for conversion of notes into rupees increased and the hoarding of rupees as well as other small silver coins began. The decline in the rupee coin held in the Issue Department of the Reserve Bank from 7,587 crores on September 1, 1939 to 14.68 crores on August 27, 1943, is significant in this connection. The Government of India issued a Notification on 25th June, 1940 to fight this tendency to hoard by penalizing the acquisition of rupee coin in excess of personal or business requirements. To meet the increased demand, new rupee coins and small coins have also been issued in larger and larger amounts.* Besides

*Up to the end of March, 1942 from 1940 the mintage of the rupee coin has amounted to a total of about Rs. 34 crores and of small coins of all denominations between 1939-40 and 1941-42 to a total of about 12 crores.

resorting to further coinage, the Government of India also lowered the standard of fineness of the silver content of four-anna as well as eight-anna pieces, in 1940, 'from eleven-twelfths to one half so that the same amount of metal may render greater service. Later on a similar reduction in the fineness of the rupee coin was also made in the same year. With a similar purpose in view, new half-anna, one-anna, and two-anna pieces were also first issued in 1942, and thus an economy of metal has been achieved. Another measure adopted to meet the demand of the rupee coin, has been the issue of one-rupee notes under an ordinance of 24th July, 1940. These notes convey no promise to be converted into rupees and are thus to be treated exactly as silver rupees.

In spite of all these measures adopted by the Government to relieve the scarcity of silver coins of various denominations, it must be admitted that the shortage of small coins in the country has still persisted thus creating a very serious situation, and the silver rupee has become a rare sight indeed, the one-rupee note having gained much in popularity. It may, therefore, not be out of place to point out at this juncture that this unsatisfactory state of affairs about the circulation of silver coins in the country is to a very great extent the result of hoarding practised by the people and should be looked upon as a direct vote of no-confidence in the currency and exchange policy of the Government which has been progressively increasing the issue of the paper currency required to meet the war exigencies of a foreign imperialism.

The future monetary standard in India:— Before concluding our discussion on the currency problem of the country, a word about the future monetary standard may not be out of place. We must in this connection first of all make the one very necessary assertion that India must possess an independent monetary standard whose aim should not be following a policy of mere exchange

stabilization as has been the case heretofore, but rehabilitating the whole economy of the nation visualized in its widest aspect. Secondly, though in the present abnormal times it is impossible to think of the exact form the future monetary system of India should be given, we must not allow the country's gold resources to be drained out of it and the Reserve Bank of India must take all possible efforts to increase its gold holdings. As remarked already, however, it is in this one vital respect that the currency policy of the Government has always blundered and the mistake continues even to this day unabated. For this no amount of condemnation of the Government can be too much.

INDIAN PAPER CURRENCY.

Early History:—Before the Act of 1861 gave the sole right of note issue to a Government Department, called the Department of Paper Currency, there existed in India what is called the free banking system according to which in law every bank was free to issue its notes. Therefore, it is erroneous to think that only the three Presidency Banks had the right of note-issue. It is a fact, of course, that owing to their special status, their notes enjoyed a superior position as they were received by the Government to some extent in payment of revenue. Other banks also took advantage of the freedom to issue notes but not to any great extent.

The Paper Currency Act of 1861, which took away the right of note-issue from banks, was the result of the Government's alternative to meet the monetary stringency in the country that had developed after the adoption of the silver mono-metallism in 1835. The scheme of a Paper Currency was originally conceived by Mr. Wilson*, but owing to his untimely death it fell upon his successor Mr. Laing to carry through the proposal in form of a Bill and the Act of 1861 was the result.

*The first Finance Member of India.

The Act adopted the principles of the English Bank Charter Act of 1844, and the fixed fiduciary system of note-issue was adopted. Under the 1861 Act, the maximum fiduciary issue in the form of Government securities was fixed at 4 crores of rupees, beyond which the Paper Currency Reserve was to consist of silver coin or bullion. India was divided into three circles of issue with Bombay, Calcutta and Madras as their head offices. The number of circles subsequently increased and settled down to seven in 1910, the four additional circles being Cawnpore, Karachi, Lahore and Rangoon. The denominations of notes issued were fixed at Rs. 10, 20, 50, 100, 500, 1,000, and 10,000. The five-rupee note was introduced in 1891. The notes were made legal tender (unlimited) both at the Government Treasuries and in private transactions but within their respective circle of issue. The notes could be encashed as a matter of right only at the head office of the circle of issue, though Government Treasuries cashed notes of other circles for *bona-fide* travellers and for the Railway Companies. Government dues could also be paid in notes of any circle.

Paper Currency before 1914:—The Paper Currency system as come to be established under the 1861 Act, suffered from a number of defects. The restrictions as to the legal tender character and encashment of the notes stood in the way of their popularity. Therefore, from the year 1903, when the five rupee note was made a universal legal tender except in Burma, a process of universalization began till it covered the currency notes of all denominations in the year 1931-32. Similarly extra-legal facilities for the encashment of notes were provided at the Government Treasuries in various places and the head offices and branches of the Presidency Banks. During the war-period (1914-18) these extra-legal facilities were suspended.

Similarly the fixed fiduciary limit that was fixed by the Act of 1861 at a very low figure of Rs. 4 crores

only was extended from time to time and it reached the limit of 14 crores of rupees in 1911 out of which 4 crores were to be held in sterling securities. The holding in sterling securities was first allowed in 1905 and was limited to 2 crores at first.

There came about a change in the metallic composition of the Paper Currency Reserve also. Upto 1898 the whole of the metallic reserve consisted of silver coin, but the Gold Note Act of 1898 authorised the Government to have the reserve in form of gold coin also. The Act of 1900 empowered the holding of the gold coin in London also. And finally under the 1905 Act the Government got the full power to hold the metallic portion of the reserve or any part of it either in London or in India, and in gold coin or bullion, or in rupees or silver bullion, with the condition that all rupees were to be held in India only. Thus a growing portion of the Paper Currency Reserve was maintained in a liquid form as it came to be used as a support to the exchange rate. The system was thus rightly criticised on ground of inelasticity as paper currency beyond a fixed legal maximum could not be issued without a cent per cent. metallic cover which was highly un-economic. Of course after 1893, when rupee became a token coin, some elasticity was introduced as in place of one rupee coin which cost less than a rupee—a currency note of the same value could be issued. Criticism was levied also on the ground that the Paper Currency Reserve was invested in sterling securities and was made to perform the function of supporting exchange which was not its proper function. The nation's demand was that all the reserve should have been kept in India and used for the purpose of converting notes only. Lack of development of commercial banking resulting in shortage of cheques made the inelasticity of the currency system all the more severe. The Chamberlain Commission had recommended that the fiduciary reserve

should be fixed at the amount of notes held by the Government in the Reserve Treasuries plus one-third of the net circulation (*i.e.* gross circulation minus the amount held in the Reserve Treasuries). Thus the fiduciary reserve would automatically vary with note-circulation. But the 1914-18 war intervened and no action could be undertaken on this or other recommendations of the Commission.

Paper Currency during the 1914-8 war:— The first effect of war on the paper currency was disturbing and there was a rush to convert notes into rupees, but soon as pointed out earlier, confidence was restored. The central phenomenon in the currency history of the country during the war period was a progressively increasing demand for money. It was not possible to meet it by coining rupees due to inavailability of silver and the only alternative for the Government was to issue more and more paper currency against a reserve of securities. Thus the fiduciary limit was raised from time to time till it touched the limit of Rs. 120 crores in 1919. The metallic reserve fell from 78.9 per cent. in 1914 to 35.8 in 1919. Currency notes of one-rupee and two-and-a-half rupee denominations were, issued and extra-legal facilities for conversion were withdrawn. Indeed India's Paper Currency had become inconvertible for all practical purposes, and only a timely purchase of 200 million ounces of silver from the United States Government saved the situation. The gross circulation of notes increased from nearly Rs. 66 crores on March 31, 1914, to nearly Rs. 153½ crores on March 31, 1919.

Paper currency after the last war:—When the war was over, as already noticed, the currency system of the country was examined by the Babington Smith Committee which, *inter alia*, made certain recommendations about the Paper Currency also and on the basis of these

recommendations the Indian Paper Currency Amendment Act of 1920 was passed. The Act made the following permanent provisions:

(*i*) The metallic reserve was to be at least 50 per cent. of the total reserve, the Committee, though, had recommended only 40 per cent.

(*ii*) With the exception of Rs. 20 crores worth of securities held in India, the rest were to be held in England in short-term securities.

(*iii*) In form of a loan to the Imperial Bank of India at 8% interest notes to the amount of Rs. 5 crores were to be issued against inland discounted bills of exchange maturing within 90 days of their issue. The Act of 1923 raised the limit to 12 crores of rupees. This extra-issue was not to be considered for fixing the metallic reserve.

(*iv*) The Secretary of State was not to hold more than five million pounds in gold bullion in London.

Besides the above provisions there were some temporary provisions also necessitated by revaluing gold and sterling securities at 2s. basis. Thus the invested portion was fixed for the time being at Rs. 85 crores; which limit was raised to Rs. 100 crores by the Act of 1925 provided the total amount of created securities did not exceed Rs. 50 crores. To fill this gap caused by revaluation, Government of India was authorized to create rupee securities (*ad hoc* securities) and issue them to the Paper Currency Reserve. Beyond the permissible limit of 12 crores of rupees out of the total of Rs. 20 crores of rupee securities, these *ad hoc* securities were to be gradually replaced by sterling securities. It was, however, in 1921-2 only that

the excess over £40 millions in the Gold Standard Reserve was used for the extinction of the *ad hoc* securities.

Not very long after the above changes were made, the Hilton Young Commission was appointed which, as we have seen, made a number of recommendations* about the paper currency in the country which, however, could not be given effect to as the relevant Bill concerning the establishment of the Reserve Bank of India was not passed. Under the Currency Act of 1927, however, the gold and sterling securities were again revalued at the lower rate of 1s. 6d. which resulted in an increase of Rs. 930 lakhs in value. This amount was utilized for cancelling Treasury Bills of an equivalent value.

Then in 1935 came the Reserve Bank of India to which the Government transferred the important function of currency control including the sole right of note issue. Since then, it is the Reserve Bank of India which has been operating the paper currency system of the country†. As pointed out earlier (see chapter on Banking) this is a great improvement over the previous system when the currency and the credit control of the country was not co-ordinated under the same authority.

Coming to the circulation of paper currency, a close analysis of the relevant statistics suggests that on the whole there has been a regular increase in both the gross as well as net (Total issue minus notes held in the Banking Department of the Reserve Bank after its establishment and in Reserve Treasuries before it) circulation of notes during all these years with the exception of the depression years of 1929-30 and 1930-31 after which a tendency towards a rise again set in. This expansion was partly due to upward trend of prices before the recession of 1937 and also due to the public demand to replace the gold in hoards. To give an idea of this rise in circulation it may be pointed

*See Hilton Young Commission recommendations elsewhere.

†See the Reserve Bank Section in the Chapter on Banking for details.

out that in the year 1919-20 the average active circulation was about Rs. 151 crores which had risen to about 172 crores in 1928-29 and thereafter fell to 151 crores in 1930-31 and then again rose to 186 crores in 1937-38 but experienced a slight fall in 1938-39 whereafter there has been a phenomenal rise*.

About the character of note circulation, the one important point deserving mention is the great popularity of Rs. 10/- and Rs. 100/- notes and the unpopularity of Rs.50/- and Rs. 20/- notes. The Rs. 2½/- note and the Re. 1/- note issued during the war were discontinued from January 1, 1926. Similarly Rs. 20/- note ceased to be issued from 1910. The Reserve Bank has decided (in 1938) not to issue its own notes of Rs. 50/- and Rs. 500/- denominations for their not being popular though the Government of India notes of these denominations would remain legal tender as before.

An examination of the figures relating to absorption or return of various forms of currency shows on the whole a preference for notes in comparison to rupees which were returned from circulation. One factor responsible for this return of rupees was their being replaced by gold in hoards whose price before 1931 was low. The period of trade depression was responsible for reduced consumption of both rupees as well as notes. With the following of trade recovery the absorption of note currency however, increased which was partly set off by a return of silver coin. The trade recession in 1937-38 resulted in a net return of currency in this and the following year, but the position improved in 1939-40 in a large measure due to improved trade activity especially due to war and the tendency to hoard to which it has given rise.

The composition of the Paper Currency Reserve shows, first an increase in the holdings of silver coin which

*Report on Currency and Finance 1939-40.

was the result of the return of rupees from circulation as pointed above, secondly the holdings in gold also increased on the whole, and from 22 crores in 1925 reached the figures of 44 crores in 1935 after which it remained stationary. This increase in the gold holdings was due to the sales of silver* conducted by the Government and brought about a corresponding reduction in rupee securities that continued say up to 1934. The position of sterling securities deteriorated in the twenties till they totally disappeared in 1931-33 and again reappeared in 1934. Thereafter, the rise began which reached its pre-war figure in 1937-8. The fall in the sterling securities was on account of the increased difficulties of remitting funds to the Secretary of State, whereas in 1933-4 and the following years the surplus Home Treasury balances and sale proceeds of silver were utilized in purchasing sterling securities for the Paper Currency Reserve which was thus strengthened.

Paper Currency under the present war:— Before closing our discussion on the paper currency in India, it is only proper to trace the effects of the present war on it. We have seen how there arose an increased demand for currency due to trade activity that followed the breaking out of war which was partially made up by issuing one-rupee notes, and increased rupee-coinage. In addition to this, there also took place a very great rise in the amount of paper currency issued by the Bank. This rise has been, to a very great extent necessitated by the war expenditure of the Government of India on behalf of the allies, to meet which they have been issuing paper currency against which sterling has been accumulated in the paper currency reserve. To have an idea of this enormous expansion it may be of interest to point out that whereas on September 1, 1939 the notes in circulation

*Silver was sold and its proceeds invested in sterling securities which were transferred to Gold Standard Reserve against an equivalent transfer of gold from the Reserve to P.C.R., corresponding amount of rupees securities being cancelled.

were about 172·44 crores by January 26, 1945 the figure reached the formidable limit of 1,034 crores. The inevitable result of this ever-increasing note issue has been the tremendous rise in the general price-level in the country which has brought ruin and distress in its turn to the poor consumer. Thus the country is to-day well in the grip of an ever-widening inflationary spiral. The authors of the Annual Market Review of Messrs. Premchand Roychand and Sons of Bombay for the year 1942 make this significant observation in this connection. "In the absence of efficient price control, it is but natural that should the Government continue to finance the war requirements of the Governments of the United Nations by means of currency expansion against sterling securities, the inflationary spiral which is still in its infancy will soon move up at an accelerated rate, particularly since the productive capacity of the country—given the present capital equipment and method of production—would appear to have reached its limit." It is a hard fact that the Government of the country has taken a very indifferent attitude towards the expansion of national production, which alone can be an effective remedy against inflation. The subordinate political status of the Government of the country which has to serve as the most obedient 'boy' of the white masters at the costs of our real national interests is at the root of the evil. A strict limitation of India's material contribution out of its present production, and an intensive effort at planned production and distribution can only save the situation but this presumes a truly national government in the country. The only compensation which the country has got for this blood-sucking process of an already devitalized nation is in form of our rising balances in sterling that are accumulating in England. They have registered a phenomenal rise during the past four years of the war, and in spite of our debt repatriation carried out of these resources, the existing balances are

enormous. On 1st September, 1939 the sterling balances in the Issue Department of the Reserve Bank of India showed an amount of nearly 39·5 crores of rupees which on 26th January, 1945 stood at the high figure of 929·33 crores of rupees*. And the process of this accumulation is bound to continue so long as the existing practice of war financing continues. They represent the savings of an under-fed and under-clad nation and their protection is the most important thing from the view-point of the country's economic future. We must insist upon a most judicious use of them and see that no deterioration takes place in their value. Syt. G. D. Birla has suggested our sterling balances should be linked to commodity index number of the U.K. so that at the time of repayment we may not suffer in terms of goods, and should get as much goods for our credits as we would have got at the time they were granted. Regarding their use, our demand is "that all British investments in India including the commercial investments be repatriated" and that whatever remains should be at the free disposal of India to purchase with them capital or other goods from any country she likes according to her needs in the post-war period. There are already made certain very ingenious suggestions to freeze our resources, but any such step based on these proposals would amount to denying the barest justice due to us.

N. B.—See the note on "Bretton Woods" Monetary Conference in appendix.

*The total Sterlings assets which have been purchased by the Government of India are near about Rs. 1,500 crores at present.

APPENDIX TO CHAPTER XXV

BRETTON WOODS MONETARY CONFERENCE.

As the present world war is drawing nearer and nearer its end, the Allies have been busy in discussing problems of post-war international co-operation in different matters. In July, 1944, at Bretton Woods in America an International Monetary Conference was held which was attended by delegates from 44 nations of the world. The Conference had before it three important issues to deliberate upon: (i) The establishment of an International Monetary Fund to maintain exchange stability between different countries of the world with a view to facilitate the expansion and balanced growth of international trade and to minimise and shorten the periods of disequilibrium in the international balances of payment of the different countires. (ii) The Establishment of an International Bank for Reconstruction and Development. (iii) Consideration of other economic problems of importance necessary to improve the international economic situation. The Conference adopted agreements on the first two questions, but the third question was not decided.

The International Monetary Fund: The following agreement was arrived at Bretton Woods regarding the establishment of an International Monetary Fund to maintain exchange stability between different countries of the world.

(i) An I.M.F. of 8,800 million dollars to be established. A Fund of 1,200 million dollars has been reserved for enemy countries.

(ii) The total amount of the Fund is to be divided in form of quotas between different countries participating in the Fund. The following quotas have been fixed for the countries mentioned after the respective amounts; U.S.A. 2,750 million dollars, U.K. 1,300 million dollars, U.S.S.R. 1,200 million dollars, China 550 million dollars, France 450 million dollars, India 400 million dollars, Belgium 225 million dollars, Canada 300 million dollars, Australia 200 million dollars, Netherlands 275 million dollars, S. Africa 100 million dollars, Iraq 8 million dollars, Iceland 1 million dollars, Iran 25 million dollars, Greece 40 million dollars, Egypt 42 million dollars, Ethiopia 6 million dollars, Ireland 1 million dollars, Liberia ½ million dollars. The share of the important countries as percentage of the total 8,800 million dollars works out as follows:—U.S.A. 31.25; U.K. 14.8; Russia 13.6; China 6.25; France 5.1; India 4.5; Canada 3.4; Belgium 2.6; Australia 2.25 and S. Africa 1.1.

(iii) Every country shall be required to make payment towards its quota in the following proportions:—(a) in gold as a minimum the smaller of (1) 25 per cent. of its quota or (2) 10 per cent. of its net official holdings of gold and dollars; and the balance of its quota shall be paid by every country

in its own currency. Applying this provision to India we find that she will have to pay to the Fund, in case she decides to join it, either gold worth 100 million dollars or 10 per cent. of the net official holdings of gold and dollars with the Government of India, whichever is less. The rest of the quota will have to be paid in the shape of our own currency *i.e.* rupees.

(*iv*) The gold that would be deposited in the I.M.F. by different countries will be kept in U.S.A., U.K., U.S.S.R., China and France.

(*v*) Every country on joining the Fund shall be called upon to express the par value of its currency in terms of gold as the common demoninator or in terms of U.S. dollars. In the parity so fixed changes to the extent of 10% would be permissible to the member country without requiring the Fund's permission. But changes beyond this limit would require the permission of the Fund which in effect would mean the permission of U.S.A., U.K., and U.S.S.R. Unauthorised changes in the par value of its currency by any member have been made permissible by either making Fund's recources ineligible for the offending country or by its expulsion from membership.

(*vi*) Provisions have been made to prevent member countries from imposing restrictions on current payments or resorting to discriminatory currency practices.

(*vii*) Under certain well-defined conditions member countries will have the right to borrow currency of other member countries from the Fund to pay off their current trade obligations. First no country can borrow more than 25 per cent. of its quota in one year and the maximum limit to which it can borrow is 200 per cent. of its quota. Secondly, "each borrowing member must pay the Fund at ¼ per cent. interest, after 3 months half per cent., and after 3 years 2 per cent., and so on at the rate of an additional one-half per cent. for each subsequent year." Again "if a nation's borrowings reach more than 25 per cent. of its original quota the interest rates jump ½ per cent.; on borrowings over 50 per cent. another half per cent. etc." (Eastern Economist September 29, 1944, page 354). From this income which would go to the Fund, 2 per cent. per annum is payable to the surplus countries on the amounts of their currencies provided to deficit countries. Lastly, "to increase the power of the nations whose currency is being borrowed from the Fund, every borrower loses one vote for every 400,000 dollar it borrows; the nation whose currency is lent gets that vote instead."

(*viii*) Regarding scarce currencies the Agreement provides for borrowing them from the countries concerned or from other countries having them, or buying them for gold.

(*ix*) The Fund has been given the necessary power to get all essential information from the member countries, *e.g.*, holdings of gold and foreign exchanges, etc., movements of capital, buying and selling rates for foreign exchanges, exhange controls etc.

(*x*) The management of the Fund will be vested in an Executive Committee of 12. The five countries with the largest quotas, U.S.A., U.K., U.S.S.R., China, and Russia, will have permanent seats on it. Two seats are reserved for Latin American countries. India, therefore, though occupying the sixth place on the list in respect of quotas has to contest for a place of the remaining five seats.

(*xi*) The Fund will come into being when the agreement is signed on behalf of the governments having 65 per cent. of the total quota but in no event before May 1, 1945. In other words the Fund would be set up only when the U.S., U.K., and Russia ratify it. Members have right to withdraw by giving notice at any time.

(*xii*) A transitional period of five years has been agreed upon during which each country may operate its exchanges according to its discretion.

Criticism of the I.M.F. from India's view-point: The I.M.F. as discussed above has been subjected to a number of criticisms from India's view-point. They are:

(*i*) The allocation of quotas to different countries is based on no principle and is purely arbitrary, and is based on the political favour in which a country has been held. Otherwise, there is no justification for India's quota to have been fixed at a smaller figure than that of China or France. The importance of quota lies not only in deciding the share of the Fund's resources giving to a country but also its voting strength.

(*ii*) It is also objectionable from India's stand-point that her gold deposited with the Fund shall be kept in any of the five countries—U.S., U.K., U.S.S.R., China and France.

(*iii*) An agreed uniform change in the gold value of member currencies can be made only with the consent of every member country with at least 10 per cent. of the aggregate quotas. This means U.S., U.K., and U.S.S.R. will determine the fate of the Indian currency also in future, though till now Britain only had this privilege. Further, an initial freedom to change the exchange rate upto 10 per cent. only without the Fund's consent may prove inadequate in case of India where the economic development of the country may necessitate greater changes.

(*iv*) The terms of borrowing agreed to are also very stringent especially for large or prolonged borrowings. The extent to which India can borrow in any given year (100 million dollars) or in all (800 million dollars) may be or may not be sufficient for India's trade deficits. Similarly the aggregate credit facilities of 8,800 million dollars may also prove insufficient to meet the current deficit of all if the accumulated sterling debts of Britain are to be settled within a reasonable period of time through multilateral channels.

(*v*) India has been granted no permanent seat on the Executive Committee though she stands only sixth in the list of quotas.

(*vi*) The I.M.F., in spite of the advocacy of Indian delegates in the matter, has not been permitted to cover the sterling balances of India. The Indian demand was that sterling balances blocked in London may secure multilateral convertibility *i.e.*, convertibility in the currencies of different countries, "so that they might be liquidated over a period of years by India's trade with all countries of the Fund and by drawing for payment, on the sterling balances." At present the position is; India cannot pay her imports from other countries than Britain by drawing on her sterling reserves in London. This demand of India was opposed by Britain and U.S.A. and therefore was not accepted. Thus as important economic problem arising out of war abnormal balances was side-tracked by the Fund.

(*vii*) Another Indian demand was that the resources of the Fund should be eligible for use not only for increasing the volume of international trade but also for a more balanced flow of the increasing volume of trade and that, for that purpose, the proposed Fund should help the industrially backward countries like India and China in developing their economic position. Even this demand did not prevail as it was opposed by U.S.A.

International Bank for Reconstruction and Development: The establishment of B.R.D. (Bank for Reconstruction and Development) was the second important issue upon which agreement was arrived at the Bretton Woods Conference. The Bank would be a non-political institution aiming at the reconstruction of the war-ravaged countries and planned development of backward nations. For the fulfilment of the above objective the Bank would promote private foreign investments by guaranteeing loans privately floated. In case private capital would not be available for investment on reasonable terms the Bank would grant loans to member countries out of its own funds also. Regarding the constitution and functioning of the Bank the following points deserve special mention:

(*i*) The authorised capital of the Bank shall be 10,000 million dollars, divided into 100,000 shares of a par value of 100,000 dollars each. The 44 nations participating in the Conference have allotted to them a total shares capital of 8,800 million dollars in the same proportion in which quotas in the Fund have been granted to them. The rest of the share capital amounting to 1,200 million dollars has been left for subscription by other nations.

(*ii*) Members of the Fund only will be members of the Bank.

(*iii*) Every member shall be required to pay 20 per cent. of the value of shares allotted to it just at the time of enrolling itself a member. The remaining 80 per cent. will be called from a member country only when it fails to pay off its loan by a foreign investor that has been guaranteed by the Bank.

(*iv*) The Bank will make loans to the member borrowers under certain well-defined conditions: (1) The Bank would make no loans or investments that could be secured from private investors on reasonable terms. (2) The project for which a particular loan is asked must be approved and recommended by an expert and competent committee. (3) The rate of interest and other

charges are reasonable and such rate charges and schedule for the rapayment of the Principal are, appropriate to the Project. (4) The Bank would see that there are due prospects for the repayment of the loan. (5) Loans shall be made for specific projects only. (6) The Bank shall see that the money borrowed is spent only for the purpose for which it is lent and it will be paid out as the work is completed. In case of those loans also, which would be only guaranteed by the Bank, the Bank would see that all those of the above conditions which are also applicable in case of a guarantee are fulfilled.

(*v*) The management of the Bank would vest in a Board of Executive Directors formed on the same lines as of I.M.F.

(*vi*) The Bank will come into existence when nations having not less than 65 per cent. of the total subscriptions of 44 nations at the conference have agreed to set up such a Bank. The last date for these countries to notify their acceptance has been fixed to be December 31, 1945.

India and the B.R.D.: We have seen above the important provisions regarding the Bank. Can we reasonably hope that India's participation in the Bank would be of real advantage to her in helping her economic development. Now, we have mentioned the terms on which the Bank would grant and guarantee loans. They are quite stringent and may be justified from the view-point of the Bank's safety. But India's chief handicap lies in her subordinate political status. We cannot pursuade ourselves to neglect the all important consideration that the decisions of the Bank would be dominated by the view-points of U.S.A. and U.K. These countries would never take a kindly attitude towards India's economic progress. Britain would like to pay off India's claim regarding the war time sterling balances by flooding Indian market with British goods. American businessmen and capitalists would not only like American goods to be sold in India but would also seek facilities for the investment of American capital in this country. Under such circumstances, the Bank may not find it easy to decide that private loans are not available for investment in India and, therefore, to get direct loans from the Bank may not be at all easy. Thus we cannot evade the inevitable conclusion that the B.R.D. would not be of much help to India.

Should India join I.M.F. and B.R.D.: The schemes for I.M.F. and B.R.D. have been already discussed and examined from our view-point and we find them objectionable on a number of important considerations. The natural conclusion that flows from this is that India should have nothing to do with these schemes unless the objections we have pointed out are remedied. The two minimum conditions that may be laid down for this purpose are: (*i*) India should get permanent seats in the Fund's and Bank's executives. (2) India's question of sterling balances should be satisfactorily solved. And underlying these two conditions there is a more basic consideration that so long as India remains a mere appendage to Britain her representatives in international conferences and committees, if appointed by the foreign government of the country, cannot be expected to strongly fight up

to the end for safeguarding the real interests of the people of India. A most shameful and disgracing example of this nature was the way in which the Indian delegation withdrew their objections to the I.M.F. on the appeal of Lord Keynes, the Chairman of the British Delegation, and signed the agreement without reservation. As against this we have the example of Russia and France whose delegates definitely moved that their objections be retained in the Conference; which means that their case would be again reconsidered at a later date. It is, therefore, significant and distressing to see this complete surrender of the Indian Delegation. Slavery exacts its toll every minute, is a fact we should not forget.

In spite of the weighty objections about which there is no disagreement, there is a class of opinion which holds that India should join I.M.F. and the B.R.D. and try to get its unfulfilled demands accepted by fighting from within. For example Prof. V. K. R. V. Rao favours such a view on the following grounds:

(*i*) "The obligations of membership of the I.M.F. are not such as to deprive India of her autonomy in economic policy or to tie her down to a policy of rigid exchange stability.

(*ii*) The I.M.F. will give India an opportunity to play some part in the shaping of international decisions on problems of exchange and currency.

(*iii*) The Membership of I.M.F. is a condition for membership of the B.R.D. and the latter is in India's advantage.

(*iv*) Membership of the I.M.F. will enable India to get accommodation for financing a possible adverse balance of trade she may have to face in the immediate post-war period."

In view of what we have already discussed it is difficult for us to agree with Prof. Rao. It is too optimistic to argue that in the matter of exchange policy India will have all the necessary freedom her economic development requires. The hard fact of the situation is that whereas so far Indian currency has been bound to the chariot wheel of the British, in future, in case India joins the I.M.F. it would be bound to the chariot wheels of the British, the U.S. and the U.S.S.R. Because not only changes beyond an initial 10 per cent. in the exchange value of a country's currency would require the Funds' consent, but in the matter of uniform changes in par value it has been made necessary that each such change made by a majority of the total voting power should also be approved by every member which has a ten per cent. or more of the quotas, which means approval by U.S.A., U.K., and U.S.S.R. This would mean link to gold more rigid than would otherwise be the case.

Regarding the hope that by joining I.M.F. India would get an opportunity to participate, in the shaping of international currency and exchange decisions, all that we can say is that it is a hope, without any foundation and it is going to remain so till India becomes free and she gets permanent seat on the executive.

How far the B.R.D. would be of advantage to India is again a matter of great doubt. Prof. Rao argues that in case Britain guarantees the repayment of loans India wants from the Bank and, thus, agrees to pay the amortisation amounts due on loans, India can get sufficient capital from the Bank for her development. But we should not forget that before the Bank can grant loans to India there are other conditions that must be fulfilled and due to India's subordinate political position those conditions may prejudice India's case to a great extent.

Lastly about the advantage that as the post-war period is most likely to result in an adverse balance of trade on current account, India's membership of the I.M.F. would enable her to get from the Fund, borrowed money to pay off the adverse balance, it must be pointed out that first it is not unlikely for India to continue to have a favourable trade balance, and secondly the borrowing from the Fund may prove inadequate for the purpose.

Thus on a cooler examination of the various advantages claimed for India's joining the I.M.F., we find that they are more illusary than real. Hence to hurry India into the Fund's membership is the least wise step to take. So far it is not certain what attitude Britain and U.S.A. and U.S.S.R. may take in the matter. The I.M.F. scheme has met much criticism both in U.K. and U.S.S.R. Therefore, the least that India should do in this connection is to wait and see how these important nations react and at the same time press her claims for a satisfactory solution of the question of sterling balances and her getting a permanent seat on the executive. And unless on these two important matters Indian demand is met, we see no point in India's joining the I.M.F. The argument that the freedom to withdraw from the Fund and the Bank is always there, is the least satisfactory way of approaching the problem. Because there is always the chance to rectify a mistake, therefore, one should be hustled into committing it is hardly any sense or logic.

CHAPTER XXVI.

BANKING.

Synopsis.

Importance of Banking in modern economy; Indigenous Banking in India; Beginnings of Modern Banking in India; Presidency Banks; Foreign Exchange Banks; Indian Joint Stock Banks; The Imperial Bank of India; The Reserve Bank of India; Industrial Finance; Post Office Savings Banks; The Problem of Banking Legislation; The Problem of a Bill Market; The Problem of Hoarding; The Present War and Indian Banking; The Institute of Bankers for India; a note; The Indian Money Market: a criticism.

1. Importance of Banking in modern economy: A well-organised system of banking is an essential condition for the successful working of modern economic organisation. The reason for this is obvious. It is a matter of common knowledge that without the help of credit even the simplest form of trade, commerce and industry cannot be carried on. This is why we find that in the history of economic evolution the system of credit is almost as old as trade or industry itself. And if credit was an important and inevitable factor even under the old economy which was simpler in form and extent, it is hundred times more so under the present economy whose distinctive and main feature is its growing complexity, and wider and wider extent. To-day not to talk of a family or a village but even a country is not a self-sufficient economic unit. International co-operation in the field of production, exchange and distribution has become the order of the day. Raw-material produced in one country is turned into finished articles in another country and they are marketed and consumed in the third. All

this necessitates large-scale production and large-scale exchange which in their turn require large finances. Hence the need and importance of a sound and extensive credit organisation in the present times. Round about production and producing in anticipation of demand are other important features of modern economy. This means that there exists a long gap of time between the production of goods and their sale in the market. Credit helps the producer in filling up the gap. And what is true of the producer also holds good of a trader or a businessman. Thus it is clear that to-day no country can achieve economic prosperity unless and until it possesses a well-founded and comprehensive credit organisation functioning. And as banks are the institutions of credit, the importance of banking organisation in modern economy is self-evident. We shall now study the banking system of India as it exists to-day and suggest remedies for its future development.

2. (*a*) **Indigenous Banking in Ancient and Medieval India :—**India is one of those few countries that had attained a very high standard of culture and civilization in the remote past. The excavations at Harrapa and Mohanjedaro only recently made have proved beyond doubt that Indian civilization is as old as six to seven thousand years. Though our information about the life of Harrapa and Mohanjedaro age is still too much limited to warrant any speculation about the type and existence of banking activities of the time, there is enough of evidence to show that since the beginning of the Vedic age (2000 B.C.), India has enjoyed an indigenous system of banking organisation very well-suited to her the then requirements and needs. There should be nothing surprising about it. India of the ancient past was not only morally and spiritually advanced but materially as well. She had developed a well-organised and extensive system of internal and external trade, and

the products of her industry had achieved a world-wide fame. Such a well developed system of trade and industry would have been impossible obviously without a sound system of banking. Hence banking to India is not a gift of the modern age. She, on the other hand, possessed a sound banking system at a time when the modern nations of to-day had not yet emerged out of a barbaric existence. A brief description of this old and indigenous system of banking in the country would, therefore, not be out of place.

In the Vedic period money-lending was a side business of the Vaishya class, but we find that by the epic age it had come to occupy the position of an independent profession, the persons following it were known as 'Vriddhipajivis.' The profession enjoyed a continuous period of progress and prosperity, until it received a great set back in the middle ages due to the Mahommedan invasions from the north-west. It was only during the reign of Akbar, the Great, that reconstruction of indigenous banking began which restored to it to some extent its old prosperity and importance. The business of money-lending and banking was carried on not only by individuals, but we find references, as old as the Vedic literature, of the existence and functioning of various kinds of guilds also in Ancient India, amongst which the bankers' and money-lenders' guilds occupied quite an important place. These guilds also received a rude shock to their existence and development by the invasions of the Muslims, and once thrown in a state of disintegration and disruption, they never recovered from it. Thus "the guilds and associations died out, but their remnants remained and the rules laid down by different guilds of various occupations and professions survived. The members of the guilds in time to come were turned into castes designated by their professions."* These castes, as we know, exist up to the present times.

*Indigenous Banking—Brij Kishore Bhargava, pp. 242.

Regarding the functions of these indigenous bankers and money-lenders, our information is that though the business of lending money to persons of all standing and classes, from the king down to the poorest man, was carried on right from the Vedic period, deposit banking was a later development. This transition from pure money-lending to banking, according to Dr. L. C. Jain, may be said to have taken place by the second or third century A.D. Manu, the great law giver, whose time is differently estimated by different writers some putting it as early as 8th century B.C. while others believing it to be as late as second or third century A.D., was perhaps the first authority to write about the existence of Deposits indicating thereby that deposit banking, in some form, must have existed at that period. Later literature and inscriptions about the functions of the guilds doing banking clearly show that besides granting of loans they also accepted deposits for which they paid interest as well. In the Vedic period loans were granted on the personal security of the borrower only, but later on they were also secured either by a mortgage, or pledge or a personal security of a surety. These loans were made both for productive as well as unproductive purposes and in cash as well as kind. The rates of interest charged differed in different cases, and though usury was regarded a sin, yet it was not altogether absent and even the normal rates of interest charged were fairly high according to the modern standard. The legal maximum rate of interst fixed and upheld by the well-known law-givers of the later Vedic period (Vasishtha, Manu, Yajnavalkya, Narad, Brihaspati, Kautalya etc.) was 15% per annum. But in case of unsecured debts, rates of interest differed from one caste to another ranging from 25 p.c. per annum in case of Brahmans, 36 p.c. per annum in case of Kshatriyas, 48 p.c. per annum in case of Vaishyas to 60 p.c. per annum in case of Shudras. Besides lending of money and receiving of deposits, the

third important function which the indigenous bankers began to perform during the Mohammedan period was that of discounting of hundis for which rates of discount were charged. About the use of credit instruments also, there appears ample evidence to show that though cheques in their present form were unknown, bills of exchange and promissory notes were in use in ancient and medieval India. "The great merchants in the few large towns gave letters of credit on one another and there is constant reference to promissory notes." According to Mr. Brown hundis were in use in the later Vedic period also. The term used by Kautalya for a hundi or a modern bill of exchange is 'adesha'. These bills of exchange were issued on foreign countries as well.* In the Mohammedan period the use of bills of exchange had undoubtedly become well established. The indigenous banker in ancient and medieval India carried on certain other activities also such as receiving valuables for safe-custody, issue of metallic money of gold, silver and copper, and the function of money-changing. In view of a large number of different coins circulating in the Muslim period, this last function has assumed great importance in those times. The indigenous bankers also made insurances by sea and land.

About the extent of the business of these bankers, it may be sufficient to remark that they had a net-work of their business spread not only all over India but to other countries as well. Their methods of business were very simple without the many cumbersome formalities of a modern bank. The indigenous banker was approachable by his customers at all odd hours, possessed an intimate knowledge about them and their business, made

*Dr. L. C. Jain, however, writes that modern researches reveal no mention of the use of metal coins or credit instruments in the Vedic period. Even as late as between seventh to second centuries B.C. he finds no reference to hundis or bills of exchange, though he admits that big merchants issued letters of credit.'

loans on the execution of a loan-deed (Rua-patra or Dastawez), and granted receipt of a deposit to the depositor. His capital consisted not only of his private money, but also of deposits received from his customers and which was further augmented by the manufacture of credit through the issue of credit instruments. The system of account keeping adopted by the indigenous bankers and the establishment maintained by them also well-suited their needs and requirements of the time.

The above description of indigenous banking in ancient and medieval India would, however, be incomplete without a mention of the great importance and influence they commanded in the Indian society. They were a great political force in the country and often took a prominent part in the making and unmaking of kings who always depended upon them for their financial projects both in times of war as well as peace. They were appointed as Royal treasures and collectors of Royal revenue and ration-suppliers of Royal army and "no royal court was complete without a state banker who was often invested by the powers of a minister." If the history of the house of Jagat Seth, hereditary bankers of the Nawabs of Bengal, shows the important part played by these bankers in the 17th and 18th centuries, the presentation of an umbrella called 'Shreshthi Chhatra' by the king to his 'Royal treasurer as a token of high position, was an indication of the great respect which the kings in ancient times showed to this great class of indigenous bankers.

From the above account of indigenous banking in India it is more than clear that when the Britishers came to our country in the 17th century, this system of our banking was well established. But soon there arose a number of causes which undermined its position so much so that by the end of the eighteenth century it had already lost much of its previous glory. The factors

responsible for this decline of the indigenous banking system were both political as well as economic. With the weakening of the Mogul Kingdom the country experienced a period of internecine disputes and resulting chaos all-round. This meant a rude shock to the credit organisation and system of banking that prevailed at the time. The establishment of the English Agency houses in Calcutta and Bombay with their banking establishments also affected the business of indigenous bankers adversely. These bankers found themselves unsuited to the work of financing the new and developing trade of the country because neither the foreign traders understood their language nor they in turn were conversant with the financing of the former's trade. Thy also suffered on account of the loss of the highly profitable business of money-changing after 1835, when a uniform currency had been established in the country. The indigenous bankers during the first few years of the Company's rule were also appointed as the collector of revenue on behalf of the Company, but soon they were deprived of this business as well. They not infrequently found their claims evaded by their debtors which was a further cause of weakening their position. This decline of indigenous system of banking in the country created a gap which soon came to be filled up by the establishment of banks on western lines. Since then the banking system of India has been composed of two distinct and separate elements, one representing the modern section and the other representing the indigenous one. And it is still one of the most important problems of banking reforms in our country that how the two sections should be integrated into a well-knit and co-ordinated whole about which we shall have an occasion to discuss later on. At this juncture it is important to remember that even at the present time, this indigenous system of our banking organisation occupies a vital and strategic position in the country's economy. We shall, therefore,

now proceed to study the present position of indigenous banking in India and suggest lines of its future reform and development with a view to organise the same as a useful constituent of the Indian Money-Market.

The present position of Indigenous banking: Before launching upon a discussion of the existing state of indigenous banking in the country, it would be useful for us to distinguish the term indigenous banker from a money-lender. Whereas a money-lender, usually known as sowcar, bania, or mahajan, confines himself to the business of pure money-lending without following any of the banking functions of either receiving deposits or dealing in hundis or both, the indigenous banker as a class combines the business of lending with the above two or any one of the banking activities as well. However, it is to be remembered that the above distinction is not rigid and clear-cut, and in many cases the dividing line would be found to be very thin indeed. In the following pages our remarks would apply to indigenous bankers as a whole and not to the money-lenders.

Indigenous banking as a profession is mostly confined to certain castes, generally known as the banking castes. These castes are named differently in different parts of the country. Thus we have the great Marwari community of Rajputana many of whom have migrated for business purposes to Bombay, Calcutta or other trading centres. The Chettis, sometimes called Chettias, are also another well-known trading and banking caste of southern India and of Burma. Of all the Chettis, the Nattukottai Chettis are the most important as bankers. Then we have the Khatris and Aroras, a sub-caste of the Khatris, of the Punjab, the Multanis who flourish in Sind and Bombay, and the Bohras who work in Gujarat, the North-western part of the United Provinces and in certain states of Rajputana. Mahommedans as a class of bankers are at the best negligible, though the Bengal and the Punjab

Banking Committees have mentioned a change coming about in their attitude towards the taking of interest which is otherwise forbidden in their religion. These indigenous bankers are usually known as kothiwalas, or shroffs also.

The indigenous banking is not organised on joint stock basis. It is generally conducted by private individuals working on their own account, though in many towns the business is carried on by private partnerships also. The well-known indigenous banking classes of Marwaris, Jainas, and Nattukottai Chettis have their offices and branches in important centres like Calcutta, Bombay, Delhi, Rangoon etc. where they keep their 'munims', and 'gumashtas' or agents to look after their business. Some of the bankers have also correspondents in foreign countries and places such as Africa, London, Paris, Ceylon and Japan. Though the indigenous bankers act independently of each other, they have a few associations also, both of ancient as well as modern origin. Those of the ancient origin are usually known as the 'Mahajan' which settle disputes among their members and act as insolvency courts. Shroffs' Associations in Bombay, Ahmedabad and Calcutta, the Marwari Chamber of Commerce and the Multani and Shikarpuri Bankers' Association in Bombay are some of the new organisations which perform many useful functions by settling disputes among their members, discussing matters of common interest and regulating their line of business including sometimes also the fixing of interest rates for different places.

Coming to the functions which the indigenous bankers perform, our findings are that in addition to the business of lending money either on the basis of promissory notes or against the security of land, house or other property they also engage in the other important work of deposit-banking. It is, however, a fact that the indi-

genous bankers depend on deposits for their capital to a much smaller extent than does a modern bank, so much so that there are certain classes of them which are positively averse to the idea of receiving deposits from the public. Moreover, the volume of deposits obtained by the indigenous bankers has been declining in recent years due to a variety of causes, "the principle one being the suction, inducing loanable capital to flow from the interior into the ports and the money centres of India, which was also due in a very large measure to alternatives offered by very high rates which the Joint Stock Banks began to offer." The competition of the co-operative banks as well as of the Government has also been an important factor. The deposits are usually withdrawn in cash and not by cheques. The indigenous bankers also draw and discount hundis, which are either demand or usance bills, which again may be either mere finance bills or trade bills or bills drawn as a convenient form of remittance of money from one place to another. The rate at which the hundis of small traders is discounted by indigenous bankers is called the bazaar rate which varies from place to place and which as a rule is higher than the bank rate by 2 to 3 per cent. in Calcutta and by 1½ per cent. in Bombay. They finance agriculture not directly but mostly indirectly through the agency of the money-lender who comes in direct touch with the agriculturists. Besides, they finance the small trader and the petty artisan, assist in the movement of crops to consuming areas or to the ports and distributes all kinds goods in the interior of the country. They perform the activities of commission agents. In the course of all this business of financing the small industries and the internal trade, "they do a considerable amount of banking business, such as buying and selling remittance, discounting hundis, receiving deposits and giving loans against stock-in-trade." In a few industrial centres some bankers keep a portion of their

funds on deposit for fixed terms with textile mills. This, however, is defective finance because the long-term needs of the mills have to be met to some extent by the short-term deposits of the bankers.

The above description of the functions of indigenous bankers must have clearly shown the great importance they occupy in the financial system of our country. Whereas there are about 350 places only where there are branches of joint stock banks in India, there are no less than 2,575 moderate sized townships and 700,000 villages; and while the indigenous banker is of utmost importance to those places where no other financial agency exists, his rôle even in cities like Bombay and in other towns where there are branches of joint stock banks is by no means unimportant. His importance lies not so much in the volume of the transactions in which he figures as in the essential service that he renders in a place which is devoid of any other banking service whatsoever. Therefore it is essential to serve the banking needs of the country, that indigenous bankers as a class should be carefully preserved and their defects remedied. It is also important to remember in this connection that the great hereditary skill and knowledge that an indigenous banker possesses, his intimate information about the business and character of his customers, his economic and simple methods of business, and his adaptability to and flexibility in the circumstances in which he works are some of the points that weigh heavily in his favour in comparison to modern banks. Hence even on the risk of repetition we may assert that the preservation of indigenous banking, with necessary reforms of course, is most important.

(*c*) **Lines of future reforms:—**It goes without saying that there exist a number of defects in the working of the indigenous system of banking that need to be remedied. One very common drawback of these bankers

is that, barring a few exceptions like that of the Nathukottai Chettis of Madras and the Multanis of Bombay, all of them generally combine the business of banking with trade, industry and even speculation of all conceivable kinds. In fact with a decline in their banking business in recent times, the tendency to engage in other type of work has become more and more pronounced. Though this combination of banking with trade, industry and even speculation has been depreciated on all hands and has been looked upon as a hinderance and obstruction to the development of banking activities, but indigenous bankers on the whole have so far never been convinced of the wisdom and practicableness of these suggestions and have shown no readiness to drop other than the banking business at present carried on by them. In fact some of the bankers regard most of this other than banking business as necessary in order to keep up their credit and prestige in the market. It is, however, important to remember in this connection that if indigenous bankers are helped to so re-organise their banking business as to make it sufficiently lucrative, most of them would be found prepared to close down their other business without any further hitch. To-day their real difficulty, that needs realisation by banking reformers, is that they are asked to give up the more profitable side of their work, without any hope and guarantee that the remaining banking business would make up the loss they would thus suffer both in the volume of business they transact and the amount of income they earn.

This leads us to the discussion of the most urgent and important question concerned with the future of the indigenous banking class in India. Our reference is to the problem of linking the indigenous banking with the modern banking in the country. The position prevailing at present in this respect leaves much to be desired. The connection between the indigenous bankers and the modern banks to-day is very intermittent and irregular.

The Babington Smith Committee describes in the following words the manner in which the indigenous financial agency comes into contact with modern monetary organisation: "The people with whom the banks deal directly are for the most part large shroffs of good standing in the principal cities. These men operate with their own capital, and generally speaking, it is only when they have laid out all their available capital in purchasing the hundis of other and usually smaller shroffs that they come to the Presidency Banks." Thus it is only in times of dear money and busy season when their funds are exhausted that the indigenous bankers approach the modern banks for accommodation. The various Banking Committees and the Central Banking Committee have also to offer no better remarks in this respect. Only those indigenous bankers, whose names are on the approved lists of joint-stock banks and the Imperial Bank obtain cash credits from them against demand promissory notes or discount hundis with them within the limits assigned to each of the banker according to his financial standing. In the majority of cases, however, the accommodation which the bankers obtain from the banks is neither free nor regular, and is sought by them occasionally and only during the busy season, when their resources fall short of the accommodation demanded by small traders and cannot be replenished from other bankers*. Complaints were also made before the Banking Committees of several Provinces that indigenous bankers fail to receive from the Joint Stock banks and specially the Imperial Bank of India all the consideration, help and sympathy which may be their due in the matter of either discounting hundis or granting them financial help in other ways. It is, however, not suggested that all the blame for this lies on the shoulders of the other party, the indigenous bankers having none of it. Their share may be

*See Banking in India by Panandikar, pp. 49.

very little and they expect help and guidance from better quarters, is of course another matter. Howsoever we view the situation the fact remains that it is an unsatisfactory state of affairs that should not be allowed to continue not only to mobilize effectively the capital resources of the country but also to bring about a unitary control over its credit organisation. The Central Banking Committee after giving much thought to this urgent but difficult problem made certain recommendations and specially laid great responsibility on the Reserve Bank for India after it was established to move in the matter. They favoured the direct linking of the indigenous bankers with the Reserve Bank of India on the fulfilment of certain conditions as shedding non-banking part of their business, having a certain suitable standard of owned capital, and maintaining proper and well audited account books by the former. These directly linked indigenous bankers were to get some privileges, the principle ones being the rediscounting of their commercial paper by the Reserve Bank, grant of remittance facilities on par with Joint Stock Banks, and extension of the benefits of the Bankers' Books Evidence Act. They also recommended these directly linked indigenous bankers to be appointed as agents for the collection of bills and cheques by the Reserve Bank, the Imperial Bank, and other banks. For those bankers who would not shed their non-banking business and conform to other conditions laid down for putting them on the approved list of the Reserve Bank, the Banking Committee suggested a more liberal treatment in regard to financial help by other modern banks—the Imperial, and the Joint Stock Banks.

When the Reserve Bank of India came into being, it was put under a statutory obligation to devise a scheme about the linking of indigenous banking with itself and present it to the Government. Accordingly on 6th May,

1937 the Reserve Bank through a circular letter to all scheduled banks and representative indigenous bankers put forth certain proposals on the subject. The proposals made contained not only conditions for directly linking the indigenous banking to the Bank but also for linking it indirectly through the scheduled banks. The conditions laid down for direct relationship with the Reserve Bank were very stiff and ran counter to the recommendations of the Banking Committee. For example they were asked to maintain some deposits with the Bank, organised themselves into self-contained legal entities with at least Rs. 5 lakhs of owned capital in addition to the conditions regarding maintaining of proper accounts and segregating their banking from non-banking business. The Bank for itself preferred the scheme of establishing indirect link between it and the indigenous bankers.

These first proposals of the Bank raised a storm of protest for their being very stringent. The Bank, therefore, issued a second draft scheme on 26th August, 1937, based on the recommendations of the Central Banking Committee for the direct linking of private bankers. The conditions stipulated therefore and as summarised in the Reserve Bank Statutory Report are: The indigenous bankers seeking to be linked directly to the Reserve Bank must confine to banking proper, maintain proper accounts audited by registered accountants and open to the Reserve Banks' inspection, submit any information desired by the Bank to determine the financial status of the banker, file with the Reserve Bank periodical statements prescribed for scheduled banks and publish returns prescribed for banking companies by the Companies Act, furnish compulsory deposits only when their time and demand liabilities are five times or more in excess of their capital in the business otherwise not, and must own a minimum capital of 2 lakhs which may be raised to 5 lakhs at the end of five years. In brief the Statutory Report emphasised the

need of formalizing their methods of banking on joint-stock banking lines, specially the need of developing deposit side of their activities. Indigenous bankers satisfying these conditions were to get rediscounting facilities with the Reserve Bank against eligible paper, the right to advances against Government Paper, and remittance facilities similar to those for the scheduled banks.

The replies that the Reserve Bank received to these proposals from the shroffs and commercial bodies were not satisfactory. They indicate that indigenous bankers generally are opposed to the idea of giving up non-banking business, increasing their dependence on deposits and giving wide publicity to their accounts. As a result the scheme of linking indigenous banking to the Reserve Bank at present waits in a state of suspended animation, though the offer has been kept open by the Reserve Bank. This is unfortunate. Though ultimately it is the indigenous bankers who would have to come in line with the modern banks, but to begin with it is for the Reserve Bank to realise that modern banking standards cannot be overnight applied to the shroffs, and a certain temporary relaxation is necessary to enable them to come within the orbit.

The Reserve Bank also hopes that this problem of bringing the indigenous bankers and the modern money market together may be solved by the development of an open bill market in the country in which the indigenous bankers' bills may also be freely negotiated and discounted, the Reserve Bank on its part encouraging such a development by agreeing to accept paper bearing names of approved parties when presented through a scheduled bank. But in the way of such a consummation there are several difficulties of which even the Reserve Bank is not quite oblivious. We shall discuss this question separately. Here we may also refer to the new scheme of

Remittance facilities introduced by the Reserve Bank from the 1st October, 1940 under which concession rates of remittances have been extended not only to the public and the scheduled banks but to those non-scheduled banks and indigenous bankers who fulfil certain prescribed conditions and are included in an approved list of the Bank. Upto June, 1941, only three indigenous bankers were placed on the approved list.

In the end in summing up our remarks about the future development of indigenous banking in India, we should repeat the recommendations of the Banking Committee that besides what the Reserve Bank and other modern banks do for them, much would depend upon the indigenous bankers themselves. They should in their own interest as well as the general interests of the country's banking system reform their methods so as to make them conform more to those of joint-stock banks in respect of accounts and audit, use of bills and cheques, prompt receipt and payment of money and conduct of operations strictly according to legal requirements, they should also organise their business into joint-stock banks or, as the Statutory Report of the Reserve Bank suggests, form themselves into discount companies with membership confined to themselves, within a given area on joint-stock basis. All this will not only help them to occupy the position in the Indian banking system to which they are entitled but would also facilitate the task of others who want to come to their help.

2. Beginnings of Modern Banking in India:— We have seen the great antiquity of indigenous banking in this country. But modern banking is only of recent growth. The Agency Houses in Calcutta and Bombay (established in the middle of the 18th century) were the pioneers in this respect. Their principal pre-occupation was conducting of general trading, but they added

banking to it as a side development to meet the credit needs of the English traders. The indigenous banking system, already in a state of decline, was not in a position to take up this work of financing the foreign trade in English hands on western lines for neither they possessed the necessary knowledge nor their language was understood by the English traders.

These Agency Houses were formed by the ex-servants of the Company, who finding themselves better adapted to commercial pursuits, had resigned their jobs. "They were shop-keepers, ship-owners, proprietors of breweries, tanneries, distilleries, cotton, flour and saw-mills and became agents for the civil and military services and also for the European bankers and merchants who settled in the country." They attracted deposits from the public, especially the European community in India and the English officers of the Company, and loaned out this money at very high rates of interest for financing the movements of crops and the indigo business, silk or opium and cotton. Some of them issued paper money also. They were also responsible for establishing some of the earliest European banks in India *e.g.* The Bank of Hindostan (1770) by Messrs. Alexander & Co., the Calcutta Bank by Messrs. Palmer & Co., and the Commercial Bank of Calcutta by Messrs. Mackintosh & Co. They made their profits in the usual course of trade and by difference in the borrowing and lending rates of interest as well as by commission. Thus the banks managed on European lines were not at first joint-stock banks, nor are they so exclusively at the present-day. European firms like Cox or Grindlay, and navigation companies like the Penissular and Oriental, have a banking side to their business. As a result of combining banking with other business coupled with reckless speculation and investing freely in houses, indigo works, coal mines, ships, coffee and spice plantations, clearing desert islands as proprietors of lands,

and working silk and cotton and flour-mills, the position of the Agency Houses, however, became very precarious. Ultimately the inevitable happened and the crisis of 1829-32 put an end to them. This failure of the Agency Houses, as was natural, also involved the collapse of their banking departments and of such banking institutions as then existed. The Calcutta Bank, (1829) the Bank of Hindostan, (1832) and the Commercial Bank of Calcutta (1833) failed with the failure of the Agency Houses with which they were connected.

3. The Presidency Banks :—The term 'Presidency Banks' was applied to the Bank of Bengal started on June, 1806. under the original name of the Bank of Calcutta, to the Bank of Bombay started in 1840, and to the Bank of Madras started in 1843. On the grant of a charter of incorporation in 1809 by the East India Company, the Bank of Calcutta came to be known as the Bank of Bengal. Till then it worked under the former name as a provisional institution established with the Government of India's permission.

These Presidency Banks were brought into existence to meet the financial demands of the growing internal trade of the country added to which was the interest of the company's Government in regard to their own banking business. When the oldest Presidency Bank, the Bank of Bengal, was established, it was expected to provide cheap specie whenever there was a demand for it from the public, and to prevent depreciation of the public securities particularly the Government Treasury bills. Another very important advantage claimed for the Bank was the introduction of the Paper currency which was so necessary to excape from the then chaotic state of Bengal currency. It is necessary to remember in this connection that at the end of the 18th century due to the heavy drain of the specie from Bengal required to meet the expenditure of the Company's wars in other parts of the country, Bengal

experienced great scarcity of precious metal as well held in the Reserve Treasuries established in the same year at the three Presidency towns of Bombay, Madras and Calcutta. Only small amounts required for day to day purposes were kept in the district and taluka treasuries. This decision of the Government was the result of the difficulties it experienced in getting back its funds from the Banks of Bengal and Bombay. Under this arrangement the Government bound itself to maintain only some minimum cash balances with the Presidency Banks failing which they agreed to pay interest to the Banks for the difference between the minima fixed and the actual deposits. Generally the Government held more than the minimum cash balances with the Banks. The establishment of the Reserve treasury system had an undesirable effect on the Indian Money Market. Large amounts of money flowed to Government Treasuries owing to revenue payments and were locked there just at a time when there was great demand for money in the market due to busy season. Thus by the Presidency Banks Act, these Banks lost their official character, though they still continued to act as bankers to the Government to a limited extent. They enjoyed the privilege of using certain minimum balances as noticed already, and also managed the temporary public debt of the Government of India. They were also subjected to some control by the Government such as regarding the audit of their accounts, calling for information, and making it obligatory on them to publish weekly statements of their accounts.

The Act of 1876 also laid down certain restrictions on the business of the Banks. They were thus prohibited to deal in foreign exchange (except as regards Ceylon in the case of the Bank of Madras), to raise deposits outside India, and to lend for more than six months and on the security of immovable property or, promissory notes bearing less than two independent names or upon personal

security or security of goods which or titles to which were not deposited as security. The Bank of Bengal was expected to remedy this state of affairs. Its notes alone were recognised by Government and it was easily the premier bank in India at the time. It had originally a capital of Rs. 50 lakhs, out of which one-fifth was contributed by the Government. The subsequent charters of the Bank increased the amount of its capital. The Bank successfully met the crisis of 1829-32 and the disturbances of 1857.

The Bank of Bombay had a capital of Rs. 52,25,000 divided into 5,225 shares of which about 3 lakhs were contributed by the Government of Bombay. This Bank failed in 1868 owing to its participation in share speculation caused in Bombay by the Civil War and Cotton famine in U.S.A. A second Bank of Bombay was established in the same year with Rupees one crore as its capital.

The Bank of Madras was established with a capital of Rs. 30 lakhs, 3 lakhs being the Government's share. The Bank was to work on the same lines on which the other two Presidency Banks were to work.

From the very start the three Presidency Banks had a close connection with the Government of the country which besides subscribing a part of the capital also had a right to nominate some of the directors. The Banks had a monopoly of Government banking. Upto 1862 they also had the right of note-issue, which right, however, they lost in that year to the Government. To compensate for this loss the Government agreed to place their cash balances with the Presidency Banks at the Presidency towns. The note-issue of the Banks had never been imporant because of certain rigid restrictions imposed by the Government in this connection. For example the total demand liabilities (which included note circulation also) were not to exceed three times the cash reserves at first

and four times afterwards. Between 1839-1862 even the total amount of note-issue was fixed.

The Presidency Banks Act of 1876 marks an important event in the history of these Banks. Under this Act the Government withdrew their share of capital and in return gave up the right of appointing the Directors and Secretary and Treasurer. The concession of having the Government balances was also now withdrawn. Regarding the business open to the Banks, they could receive deposits, invest in Government and certain other specified securities, deal in inland bills of exchange, advance funds against accepted bills of exchange and promissory notes, accept securities for safe custody and buy and sell gold and silver. So far as the various restrictions imposed upon the Banks were concerned, they were partly the result of the Government's desire to keep the Banks to the straight path, and away from business of a risky nature, such as borrowing outside India and dealing in foreign exchange were then considered to be. But the jealousy of the Foreign Exchange Banks which were anxious to preserve their monopoly regarding foreign exchange and access to the London Money Market was also an important factor working behind these restrictions. And there is no doubt that after a time when the exchange value of the rupee was relatively stabilised, these restrictions weighed heavily against the progress and usefulness of the Banks. For example the inability of the Banks to borrow in the London Market even in the busy season when there was shortage of funds accentuated the evil still more and as a consequence the money rates in India soared very high and the trade and commerce of the country suffered.

In spite of all these handicaps, however, the Presidency Banks made great progress. They opened several branches in the country, by providing special facilities for encashment made the Government currency notes very

popular, attracted private deposits and banking business on profitable terms and last but not least their association with the Government increased their prestige and gave them a position of pre-eminence in the banking system of India. During the great war they greatly helped the Government by floating its war loans and Treasury bills. Thus the Presidency Banks continued their successful career till the year 1921, when they were taken over by the newly formed Imperial Bank of India as 'going concerns' and brought to an end.

Foreign Exchange Banks:—These are the banks with their head offices established outside India mostly in London, but a few of them have such offices in continental countries, the Far East and the United States of America also. From the view-point of their field of operation, they are classified into two categories. There are the banks doing considerable portion of their business in India or Burma, and others which are merely agencies of large banking corporations doing a major portion of their business abroad. At the end of 1870 there were only three such banks in India. Up to 1930 in every decade their number constantly increased, there being 18 of them at the end of this year. Since then their number has been more or less stationary, the highest being 20 that was reached in 1940. On 31st December, 1941, however, their number had come down to 17 only, out of which 5 belonged to the first category *i.e.* doing considerable business in India and 15 to the second having a major portion of their business abroad. A review of the deposits received in India by these banks throughout this period also tells the same story of their uninterrupted growth up to the year 1920 after which, excepting the lowest pitch having been reached in the depression year of 1931* and the highest one having been reached in 1941

*In 1938, the year of recession, the deposits were reduced even below the figure of 1931 by about 27 lakhs of rupees.

under the inflatory conditions of war-time; their position has been more or less unchanged. In altogether, however, the tendency regarding deposits in recent years can be said to have been one of increase which the present war has greatly accentuated.

These banks came into existence with the sole purpose of financing the foreign trade of the country which has been their monopoly even up to this day. We have already noticed how the Presidency Banks were prohibited under the Act of 1876 from either dealing in foreign bills or raising deposits outside India. The Imperial Bank of India which replaced these Banks also suffered from a similar restriction till the establishment of the Reserve Bank of India in 1935. So far as the Indian Joint-Stock Banks are concerned, though they have never been subjected to any such legal prohibition, actually they have generally kept themselves aloof from this business for lack of the necessary training and experience and the want of access to the London Money Market. Only a few of them, now defunct, such as the Alliance Bank of Simla and the Tata Industrial Bank (both liquidated in 1923) did engage in it to any substantial extent. In 1936 the first Indian Exchange Bank, the Central Exchange Bank of India, was opened in London under the aegis of the Central Bank of India. It was, however, amalgamated with Barclay's Bank, London, in 1938. A few of the existing Joint Stock Banks do take some part in this business. But this by no means can be regarded as important. Thus foreign exchange, to repeat, virtually remains the monopoly of the foreign banks. We shall now discuss a bit in detail the way in which the foreign trade of our country is being financed by the exchange banks.

The financing of India's foreign trade consists of two stages—(1) financing the movement of goods from Indian ports to foreign ports and *vice versa* and (2) financing

it from Indian ports to inland distributing centres or from inland collecting centres to exporting Indian ports. First let us take up the first of these two stages.

When an Indian exporter sells goods to a foreign buyer, the following method is adopted by him to get the payment of the goods he has sold. Suppose the foreign purchaser is from London. He would then open credits with a London bank or a finance house and send advice to India through an exchange bank. The Indian exporter would draw a bill of exchange against such credits which is drawn in sterling and is mostly three months' sight D.A. (Documents against Acceptance) draft, though sometimes it is a D.P. (Documents against Payment) draft also. This bill would be discounted in India with an exchange bank, the Indian exporter thus getting the price of his goods. The exchange bank would thereafter forward the bill that it has discounted in India to its head office in London. The London head office after getting it accepted by the bank with which credits were opened would endorse it and then discount it in the open market.* The London head office of the exchange bank thus gets back in sterling what its branch paid out in rupees in India. Because the rate of discount prevailing in London is usually lower than in India, the difference constitutes the exchange banks' profit. Sometimes the London head office may not re-discount the bill but hold it till maturity in case trade is slack and there is no immediate demands for the employment of funds in India. Thus the export trade of India is largely financed by the funds of the British banks. It is also open to the Indian exporter not to discount the bill with the foreign exchange bank in India but to send it for collection only through it. This is, however, unusual since it means on the part of the Indian exporter

*These bills are discounted in the U.K. by the English and Scotch joint-stock banks or by the Bank of England to discount with which two British signatures are necessary.

waiting for funds till the bill falls due. Though our export bills drawn on Europe, the U.S.A. and the colonies are in sterling, those on Japan are in yen and on China are in rupees.

The discounting of Indian export bills by the exchange banks in India means a transfer of their funds to London. To bring their funds back to India, the foreign exchange banks, therefore, adopt the following methods. They sell sterling against their London balances to the Reserve Bank or to private persons who want to remit funds from India, cash the import bills when they mature, and sell gold and silver bullion as well as sovereigns which they import from abroad whenever there is a strong favourable balance of trade. Similarly when the balance of payment is against India, the foreign banks export gold or silver out of India. Formerly they also purchased Reverse Councils when the Government of India sold them but now after the establishment of the Reserve Bank of India they can purchase sterling from the Bank for delivery in London.*

Coming to the financing of the import trade, we find that there are two methods adopted for the purpose. When the importer in India is only a branch of the London exporting firm, the method of financing is different from one which is resorted to when the importer is an Indian with no such foreign connections. In the first case the actual procedure followed is this. The London exporting firm on account of its possessing the requisite standing draws a bill on the London office of an exchange bank which accepts the bill and returns it to the drawer who discounts it in the London money market and thus gets payment for the goods he has exported to India. The accepting bank sends the relative documents (Bill of Lading Insurance Policy) to its branch in

*See Jathai and Beri, Vol. II (1941), pp. 427-28.

India which collects the proceeds of the goods from the importer (which is only a branch of the exporting firm in London) and remittances are sent to London at or before the maturity of the bills. This is the method known as that of London banks' acceptances of 'house' paper. Only a small part of our import trade is financed according to this method. The bulk of the import trade is financed by 60 days' sight bills (D.P.) drawn on Indian importers by western exporters who discount these bills in London with the London head offices of exchange banks in case the exporters belong to London. The London office then sends the bills to its branch in India which collects the proceeds from the Indian importers upon whom the bills are drawn. Though these bills are D.P. bills, but importers can obtain the delivery of the goods before payment by executing trust receipts in favour of the exchange banks and holding the goods as their trustees until their final payment. The bills under both the methods are drawn in sterling. About the defects from which the financing of our import trade suffers, we shall write later on.

So far as financing in the second stage of our foreign trade is concerned, only those foreign banks partake in it which have their up-country branches. In such cases both the stages are covered in a single transaction. For instance, with regard to goods imported into Cawnpore, where there is a branch of an exchange bank, the import bills drawn by foreign exporters are forwarded to the Cawnpore branch of the Exchange Bank and their value is collected there from the importers; and with regard to exports from Lahore, the Indian exporters can draw bills on the foreign purchasers under credits opened by the latter and sell them direct to the Lahore branch of an exchange bank.* If the up-country centres have no branches of the exchange banks, then financing in the

*Banking in India by Panandikar, pp. 160.

second stage is done by other agencies. The Imperial Bank, the Indian joint-stock banks and the indigenous bankers finance the movement of produce from the collecting centres to the ports by purchasing demand drafts drawn by the exporter's agents on the exporter's firms at the ports; and Indian joint-stock banks, shroffs and commission agents finance the movement of imported goods from the ports to the distributing centres.*

Besides the important business of financing the foreign trade of the country, the foreign banks also perform every other kind of banking business thereby offering competition to the Imperial Bank and the Indian joint-stock banks. This was mostly a post-war development when, because of the dislocation of foreign trade and foreign exchanges, the exchange banks began to employ their funds in new directions. To-day they compete with the other constituents of the banking system of India by receiving deposits, making advances, negotiating bills, and financing the internal trade in several up-country centres such as the piece-goods trade in Delhi and Amritsar, the leather trade in Cawnpore and the jute trade in Bengal. They have even established connections with the Marwari bankers whom they make advances and whose bills they discount. Thus the exchange banks are not performing only the exchange business, the name is rather a misnomer.

The working of these banks in India has been subjected to a good deal of criticism on several grounds, the more important of which may be grouped under the following few heads.

(1) They are free from all legal restrictions to which other banks registered and working in India are subject, and therefore information regarding their Indian business as separate from non-Indian business as well as much other useful information is not made available by them.

*Banking in India by Panandikar pp. 160.

(2) They maintain low cash reserves in India which means jeopardising the interests of Indian depositors.

(3) They monopolise a very profitable part of the banking business of the country, *i.e.*, the financing of the foreign trade and as a result the share of the Indians in the foreign trade has also dwindled, their present share being estimated at 15 per cent. only.

(4) They discourage Indian business and enterprise in more than one way, *e.g.*, regarding Indian brokers, Indian Insurance companies etc. They force Indian merchants to insure their goods by British Marine Insurance Companies.

(5) They unfairly discriminate against Indians in several ways such as giving of poor references about them to foreigners, demanding from them deposits before opening credits, not appointing Indians in high posts etc.

(6) Recently their competition with Indian joint-stock banks has increased.

(7) The financing of our import trade is defective and the anti-Indian attitude of these banks has been a strong factor against any improvement being made in this respect.

The last point needs some clarification. We have seen that our import trade is financed by sterling bills. This is against the usual practice that exists in every country with a well-organised banking system and according to which import bills are drawn in the currency of the importing country and after being accepted by the drawees are available for discount in its discount market. In case of India, however, these sterling import bills are discounted outside India, say in London by the head offices of the foreign exchange banks which then send them to their branches in India for collection. They are D.P. drafts and contain an 'interest clause' according to which the Indian importer, besides the price of goods, is also

charged interest, usually at 6%, from the date of the drawing of the bills to the estimated date of the arrival of the proceeds of the bills in London, though the rate prevailing in the Indian market may be lower. The Indian importer, thus, remains at a disadvantage in comparison to a European importer in India working only as a branch of the foreign exporting firm who gets the advantage of a low discount rate varying between $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent. because of the use of London banks' 'acceptances of house paper' for financing his import transactions. These D.P. sterling bills offer a very sound and profitable means of investment to the foreign exchange banks because they earn on them a rate of interest higher than any money market in the West can offer. But as they are drawn in a foreign currency, they are rendered useless for the Indian joint-stock banks and are not available to them for investment. In India's interest, therefore, it is highly necessary that these import bills should be drawn in rupees and the London banks instead of purchasing them should only accept them as is done in the case of 'house-paper.' As this change over would affect the exchange banks adversely, they have so far been successful in preventing it. The Central Banking Enquiry Committee had also recommended for such a change in the basis of these import bills from sterling to rupee.

Turning to the various points of criticism levelled against the foreign banks, there is a general agreement about the view that the present policy of open door followed in regard to these foreign institutions is both without a precedence in any other country of the world as well as against the interests of a sound and well-developed system of national banking. Accordingly a system of licensing the foreign banks was recommended by the majority of the Central Banking Committee. The Reserve Bank of India was suggested to act as the licensing

authority and the terms of license were quite moderate, such as furnishing the Reserve Bank with annual statements showing the assets and liabilities about their Indian business, submitting at least for a few years, to the Reserve Bank periodic reports of Indian and non-Indian business done by them, and any other conditions imposed on the basis of reciprocity'. It was further suggested that to all the existing banks licenses should be freely granted for a fixed period to be renewed if the terms specified in the license had been complied with. Mr. Manu Subedar, however, differed from the majority regarding the terms of license and suggested the following ones that are more strict than those put forward by the majority. He wanted *inter-alia* that the licensed bank should not receive deposits in India from Indian-born persons or companies registered in India, should confine its branches to port areas, the existing branches in the interior to be withdrawn within five years, should not acquire any controlling interests, directly or indirectly, in Indian institutions and excepting the manager and one more official in each branch should appoint the whole staff from amongst Indians. These recommendations remain unadopted so far. Further under the Act of 1935 on British banks, which form the majority of the exchange banks in India, only such restrictions can be imposed as exist on Indian banks working in Britain of which there are hardly any inexistence.

To improve the share of Indian nationals both in the spheres of foreign banking and trade, the Central Banking Committee made the following suggestions. First, well-organised Indian joint-stock banks should open foreign connections for the benefit of their customers and thus deal in foreign exchange. This would avoid heavy cost of establishing branches at foreign centres in which respect there exist several difficulties such as lack of large capital, absence of dependable and well-

trained staff, hostility of foreign banks, and their inability to keep themselves in close touch with the international monetary conditions, and to secure export and import bills. The other recommendation was that on the establishment of the Reserve Bank of India, the Imperial Bank should be freed from the restriction of dealing in foreign exchange and be induced to take an active share in it. In spite of the Imperial Bank's being free of the above restriction, and its being appointed as the sole agent of the Reserve Bank*, no stipulations regarding foreign exchange business have, however, been made with it. Another recommendation of the Committee in this matter was that in case the Imperial Bank fails to participate actively in the financing of the foreign trade within the stipulated period or no agreement could be arrived at with it, an Indian exchange bank should be established for the purpose. The capital of the bank was proposed at Rs. 3 crores to be subscribed in the first instance by the Indian joint-stock banks and if not fully taken up by them within a prescribed period the balance to be supplied by the Government. The Government, however, should arrange gradually to dispose of their holdings later to the general public. It was also laid down that so long the government hold more than 50 per cent. of the capital, they should have a dominating voice in the appointment of directors†. Six members of the Central Banking Committee, however, thought the immediate establishment of a State Exchange Bank highly urgent.‡ No effect has so far been given to this recommendation of the Committee as well. Lastly the Banking Committee also appreciated

*Granting of this sole agency to the Imperial Bank was made dependent on appointing majority of the Central Directorate from Indians, giving them three-fourths of the seats on Local Boards and stopping the appointment of non-Indians on its staff except in special cases. These conditions remain unfulfilled.

†See Jathai and Beri, Vol. II (1941), pp. 433.

‡Mr. Manu Subedar was opposed to the establishment of a State Exchange Bank as he was very doubtful about its success. He favoured a separate department of the Reserve Bank to take up the business for so long as Indian Banks do not come in the field.

the idea of starting 'joint banks' controlled by Indians and non-Indians both to finance the foreign trade of the country. The idea in itself may appear howsoever attractive, but to translate it into practice would be almost an impossible task as the foreign banks would find no advantage in such a scheme and Indians would not be able to provide the large amount of capital that would be required. A discussion of all these proposals to improve the share of the Indians in the financing of the country's foreign trade leads us to the only conclusion that the ultimate solution of this very important problem would be possible by following on the one hand the policy of strengthening the position of the Indian joint-stock banks and encouraging them to take greater and greater share in this part of the banking business, and on the other by imposing certain restrictions on the working of the foreign banks in the country. All this requires a highly sympathetic attitude on the part of the government towards the national interests without which no substantial progress can be possible.

Indian Joint-Stock Banks:—Under this heading are included all those banks, whether managed by Europeans or Indians, which are registered in India under the Indian Companies Act. The leading joint-stock banks working at present are: The Bank of India, the Central Bank of India, the Punjab National Bank, the Allahabad Bank, the Bank of Baroda, the Bank of Mysore, the Indian Bank, the Union Bank of India and the Bank of Behar. Some of these banks, such as the Allahabad Bank (1865), and the Bank of India (1906), are either fully or largely in non-Indian hands, whereas banks like the Punjab National Bank (1895) and the Central Bank of India (1911) are really Indian concerns. The Bank of Baroda (1909) and the Bank of Mysore (1912) have been established in the respective states of Baroda and Mysore with the active patronage and support of the states to which they belong. The activities of the Bank

of Mysore are mostly confined to state limits, but the Bank of Baroda has large activities even in British India. The Union Bank of India has been started only in 1919 and is still in its initial stages. The Indian Bank was established in 1907 and is at present the largest of the south Indian banks. So far as the Bank of Behar is concerned there is nothing special to be said about it except that it began its work in 1911 in a very modest and obscure way. Of the above banks, the Bank of India, the Central Bank of India, the Punjab National Bank, the Allahabad Bank and the Bank of Baroda are known as the "Big Five".

The Indian joint-stock banks came into existence mainly to finance the growing internal trade of the country, as the three Presidency Banks, being semi-state organisations and working under several restrictions, and the Foreign Exchange Banks, confined to the financing of the foreign trade, were unable to meet this demand. The history of the development of these banks during the past more than hundred and fifty years has been a chequered one and is full of many valuable experiences and instructive lessons for their future progress and prosperity. We shall, therefore, make a brief study of it.

The first period ofthe growth of joint-stock banking in India was the pre-1860 one. As the principle of limited liability was not legally recognised in those days, all the banks that were started were on the basis of unlimited liability. The only exception was of the General Bank of India opened in 1786. The first banking institution run on western lines was not the Bank of Hindostan started in 1770 by the Agency House of Messrs. Alexander and Co., as is generally believed. It was on the other hand, a government bank established in the province of Madras probably in 1688. The next attempt was made at Bombay as a result of which a bank came into existence there in 1724. The Bank of Hindostan, thus, was the

third. The Bengal Bank and the General Bank of India, both of which closed their business in 1791 and 1793, were the other two important names of this period. A keen rivalry prevailed in these three important institutions of the 18th century particularly over the question of gaining the patronage of the government. It was the General Bank of India, however, which secured the government recognition and privilege. The crisis of 1829-32 in which several Agency Houses failed also brought an end to the banks associated with them. This was the first set-back in the banking development of India. After the crisis till 1860, banking activity was slow. During these 28 years only 12 banks were started about half of which failed as a result of speculation, fraud and imprudent investments. Everyone of them was a European enterprise. The most important service which the banks of this period rendered was the introduction of note-circulation in the country. And so far as the institutional gain was in question, the emergence of the three Presidency Banks was the only one made.

The next period falls between the years 1860—1900. Now the principle of limited liability had won legal recognition. The banking development in these forty years was, however, slow. During the speculation fever of American civil war, of course, many banks were floated in the city of Bombay, but almost all of them proved as transitory as the boom itself, leaving in addition a dark shadow in their train. In 1870 there were only two Indian joint-stock banks with capital and reserves of 5 lakhs and more. By 1900 the number increased to 9. The most important of them were the Allahabad Bank of India (1865), the Alliance Bank of Simla (1874) which failed in 1923, the Oudh Commercial Bank (1881), the first bank due to Indian enterprise, and the Punjab National Bank (1894) established mainly through the efforts of Lala Har Kishanlal. In the last

two decades of the 19th century the progress of the Indian joint-stock banks was, however, substantial. In the last decade when they made a gain of 5 crores in their deposits, the Exchange Banks showed an improvement of 3 crores only whereas the Presidency Banks actually lost ground by 1½ crores.* But keeping the whole period in view the progress was not satisfactory. Stationary economic conditions in the country during the later half of the 19th century, and unsteady prices with a falling trend for the most of the period were the main causes for this slow banking growth of India in this era.

The third period begins with the beginning of the twentieth century and may be said to last upto the year 1913, just before the commencement of the banking crash of the years 1913—18. This may be called a period of uninterrupted growth which was more particularly accelerated by the Swadeshi movement of 1905 and after. The People's Bank was founded in 1901 largely through the efforts of late Lala Harkishen Lal. The banking floatations brought about by the advent of Swadeshism were led by the Bank of Burma established in 1904 which was followed by a number of other banks mostly in the United Provinces and in the Punjab. Some of the important banks which owed their origin to this period were, besides the Bank of Burma, the Bank of India, the Bank of Mysore, the Bank of Baroda, the Indian Specie Bank and the Central Bank of India. Some of them, as we have seen, belong to the list of the 'Big Five.' Till 1906 the Indian joint-stock banks added to their deposits by 11 crores when the Presidency and Exchange Banks respectively claimed 15 and 8 crores. Between the years 1906—1913 a further addition of 11 crores was made as against 9 crores of the Presidency Banks and 13 crores of the Exchange Banks. The total number of banks with a capital and reserve of 5 lakhs and more increased during the period

*See 'Modern Banking' by Muranjan, p. 7.

(1900—1913) from 9 to 18. The number of the smaller banks established was much larger.

This brings us to the verge of the great banking crisis of 1913 to 1918 which surpassed all the previous crisis of either 1829—32, 1857 (due to Mutiny,) or 1836—66 (due to American civil war speculation boom coming to a crash.) During this period in all as many as 95 banks with a paid-up capital of near about 2 crores failed. The People's Bank of India which closed its doors on September 17, 1913 was the first which led the way. Amongst the provinces the Punjab, the United Provinces, and Bombay were the worst sufferers. According to years, as many as 55 failures were confined to the year 1913-14 only which in fact was the real period of general banking crisis. Otherwise bank-failures in our country not only in the rest of these years but in the years thereafter up to the present day have been sporadic individual failures due to individual weaknesses and defects. Though as a result of the crisis some of the leading joint-stock banks such as the Indian Specie Bank, the Bank of Upper India and the People's Bank of India also had to close their doors, but quite a good number of failures related to weak and small institutions that were mostly a mushroom growth. Another important point to be remembered in this connection is that banking crisis of the type that occurred at this time was no speciality of India. All countries including the U.S.A. and Britain in the course of their banking history have faced such critical times now and then. Further the failures that took place in India during this period were not limited to Indian concerns only but included the European-managed ones also. Therefore the criticism that has been made about the inherent incapacity of Indians to organise banking firms of the modern type is highly unwarranted by facts and can be said to be inspired by a most unfair foolish, and anti-Indian outlook. Coming to the causes of these bank failures, several of them were there. Low

cash reserves being 10 to 11 per cent., fraudulent mismanagement, apathy of shareholders who did not take any interest in controlling the affairs of their banks, neglect of sound banking theory and practice about investment policy and maintaining sufficient quick liquidity, the gullibility of the depositors easily misled by window-dressing of balance-sheets and the payment of high dividends even from capital, lack of palliative or remedial action by the government or quasi-government agencies and last but not least the absence of co-operation and at times even hostility between the banks themselves—these were some of the factors that brought about the above banking crisis. Just as every evil has a good coming out of it, the bank failures of these years also had some wholesome lessons to teach for the banking progress of our country. They demonstrated the urgent need of having a central banking institution to guide and control the country's credit machinery as well as the need for more stringent banking regulation and legislation in India, whereas the starting of the Reserve Bank of India in 1935 has fulfilled the first need, the second one still awaits its realization. The importance of adequate cash reserves especially in the early years of banking development in a country was also made sufficiently clear. It seems that the Indian joint-stock banks have after all learnt the lesson and latterly the position has improved in this connection. Still the tendency needs a cautious watch specially in the case of smaller banks.

Though the set-back of 1913 and after affected Indian joint-stock banks appreciably, but the advent of war conditions checked any tendency to prolonged decline. In the war years of 1914—1920 and the post-war boom of 1921 these banks gained both in number as well as deposits. Then followed the crisis and deflation of 1922 which lasted upto say 1923 or 1924. The total deposits of the Banks that had reached the high figure

of 80 crores in 1921 registered a decline in 1923 and 1924, in the latter year the lowest figure of 55 crores having been reached. Our study of the banks' total resources (capital, reserves and deposits) also takes us to the same conclusion, with the difference that the lowest point was reached in 1923 after which a rise begins. It was also in the year 1923 that the two important banks, the Tata Industrial Bank and the Alliance Bank of Simla, failed.

After the depression years of 1923 or 1924, the history of the growth of joint-stock banking in India falls into three distinct periods, if we take as our guidance the total deposits of the banks. First we have the period lying between 1924-1925 to 1930. Though the position improves during these years but the improvement is small and the total deposits still remain much below the 1921 figure of 80 crores, they being about 68 crores only in 1930. This small improvement is followed by the depression year of 1931 when there occurs a fall of about 2 crores. This was the year in which the effects of world-wide trade depression were concentrated so far as India was concerned. Then we have the second period of progress lying between 1932 to 1937 in which the improvement is more marked than in the first period, the total deposits crossing the record figure of 1921 in 1934. In 1937 the deposits reach another record figure of more than 108 crores. This period is again followed by a depression year in 1938 when, though the small banks continue registering a rise in their deposits though at a much slackened pace, the total deposits decline by about 2 crores. It was in the same year that an important case of bank failure occurred, when the Travancore National and Quilon Bank closed its doors. Then there is the present period of great progress that has begun since the year 1939 and has continued up to the present. By the end of Jan. 1945 the total deposits had reached a figure of about 875 crores and there is no doubt that the tendency is on the increase. One

important cause of this almost phenomenal growth of deposits is the great war-time inflation. An important feature of joint-stock banking development in recent years has been a very large increase in the number of small banks. Our study of bank-failures in the post-war years after the banking crisis of 1913-18 also reiterates our conclusion of banking progress in these years. The first remarkable fact in this connection is that all the failures have been individual failures illustrating certain weaknesses and deficiences in the concerns that failed. Similarly the rate of annual suspensions of banks indicates that failures among the bigger banks are gradually declining with the progress of years. This shows the growing stability of the bigger banks and to this extent is a proof of sound banking.

Now we shall discuss the functions of joint-stock banks in India. Here it should be noted that they are the ordinary commercial banks run on modern lines and therefore perform all the functions of a modern commercial bank. Thus they receive deposits on Fixed, Current and Savings Bank account, grant loans, both secured and unsecured, discount and purchase bills of exchange though this function is still in an undeveloped stage, invest their resources in government and other securities, and lastly render many other subsidiary services for the convenience and guidance of their customers and the general public. A detailed knowledge, however, of some of the above functions would be necessary in order to fully appreciate the services that joint-stock banks in India render to the economic life of the country.

In the working of a modern commercial bank, the distribution of commercial credit, *i.e.*, giving of loans, is of primary importance. It is the one function for the fulfilment of which the various activities of a modern banking institution, including the important activity of

even deposit banking, are mere adjuncts. We will study in the following lines how joint-stock banks in India fair in this respect. There are three kinds of loans granted by commercial banks (1) loans against marketable security pledged with the bank, (2) clean advances against personal credit with a second signature to the promissory note, *i.e.*, against a two name paper, and (3) clean advances against the personal credit of the borrower only. Whereas in western countries the third type of loans are most common, in India it is the first two types, and between them the first type, that predominate. This position needs improvement, because short-term credit to trade and industry should not call for the pledging of the marketable security of the borrower which should be left free for obtaining long-term advances. As the quantity of two-name paper of the type acceptable to banks is not sufficiently available, for reasons that we shall have an occasion to deal with later on, the bulk of credit in India is granted against tangible assets as stock exchange securities, agricultural products like grain and cotton or their hypothecation, piecegoods or other goods, stock-in-trade of mills and factories and also immovable property. Regarding two-name paper promissory notes endorsed by shroffs or managing agents are quite acceptable to joint-stock banks. This type of paper, however, as already remarked is not found in sufficient quantity and advances given against such security are small.

The most popular method of lending adopted by joint-stock banks in India is the cash credit system. Under this system an advance is made against a promissory-note signed by the borrower and secured by the hypothecation of bonds, shares or commodities. The borrower pays interest only to the extent he uses the credit from day to day and can pay back at any time any portion of the credit actually used. But a minimum amount, usually one-half of the maximum credit allowed to the borrower,

is, however, fixed on which the borrower would have to pay interest for all time. This system of granting credit is a hinderance in the development of a bill market but it prevails because the bank and the borrower both like it. The bank has the facility of withdrawing credit at any time if necessary, and the borrower can also similarly reduce the obligation, though he would have to pay interest on the minimum amount fixed*.

Regarding the class of operations these banks finance, we find that they provide short-term loan mostly to internal trade, their share in the financing of the foreign trade of the country, its agriculture and industry being almost insignificant. They finance the movement of produce from the villages to the exporting ports or from 'mandis' to consuming centres and of imports from the ports of entry to the distributing centres. Their business so far as agriculturists are concerned is usually confined to the larger land-holders, the planters and others who can offer tangible and marketable security.† So far as the financing of industries is concerned, joint-stock banks in India grant advances for working capital for short periods only either in the form of cash credit or an ordinary loan. They do not as a rule provide funds for block capital for industries.

Another important feature of the functioning of joint-stock banks in India is that, for a number of reasons the most important being the scarcity of trade bills and the absence of bank acceptances, they invest a relatively greater proportion of their resources in gilt-edged securities (government securities) as compared with bills.

About the various subsidiary services which the joint-stock banks in India perform, it is encouraging to find that they have made substantial progress in this

*Banking in India by Panandikar, pp. 140.

†*Ibid*, pp.139.

respect. Some of the important subsidiary services rendered by these banks are: giving of financial advice and commercial information to their customers, advising them about investments and purchase and sale of securities in their behalf, making and receiving payments on behalf of their clients, serving as correspondents or representatives of their customers, other banks or financial corporations, and lastly performing certain miscellaneous functions such as issuing of letters of credit, circular notes, and bank-drafts especially for the benefit of the travellers, and underwriting loans raised by Government, public bodies and corporations. They also serve as referee to the financial standing, business reputation and respectability of their customers.

The working of joint-stock banks in India has also revealed a number of difficulties which have come in their way of a more rapid development. The more important of them may be summarised as under:

(1) Lack of encouragement and support from the Government and, before the establishment of the Reserve Bank of India in 1935, the absence of a central banking *institution to help and guide them particularly in times* of difficulty as well as to co-ordinate their activities. The starting of the Reserve Bank of India with its control over the scheduled banks and its readiness to help and guide even the non-scheduled banks has remedied the latter difficulty to a certain extent.

(2) The existence of competition from the foreign exchange banks, and the Imperial Bank of India while a lack of *esprit de corps* amongst themselves have also hindered their progress. It is also feared that the growth of co-operative urban banks in future would mean a further source of competition to them. About their competition with the exchange banks we have already dealt within the last chapter and with the Imperial Bank

of India we shall deal in the next. So far as the question of promoting a spirit of co-operation amongst themselves as well as amongst them and other constituents of the Indian Money Market is concerned, the establishment of an All-India Bankers' Association, as recommended by the Central Banking Committee, would prove of great benefit.

(3) The existence of a large non-Indian element in the spheres of trade and industry in the country has been a further drag on the development of these banks. The non-Indians have always encouraged banks of their own nationals. An improvement in this direction calls for a revolutionary change in the structure of Indian government and its policy towards Indian enterprise. The ultimate solution naturally lies in the political emancipation of the country from the foreign yoke.

(4) The economic backwardness of the country and the want of a well-developed banking habit in the people are both a cause and an effect of banking backwardness. Any real improvemet in this direction also depends upon a well-planned economic development of the country which should be both comprehensive and complete. This presupposes real political power in Indian hands.

(5) Then there are certain other difficulties which the banks have faced such as Hindu and Mohammedan inheritance laws about inmmovable property, limitation of equitable mortgages* to some ports only (Karachi, Bombay, Madras and Calcutta), difficulty in converting Government securities into cash in times of need, lack of sufficient ability and experience of bank-directorate and the difficulty experienced by new banks in getting entry to the clearing houses under the influence of exchange

*Under the transfer of Property Act mortgages may be effected by mere deposit of documents without mortgage deeds or registration. Such mortgages are convenient to business men and banks and are known as equitable mortgages.

banks. The necessary modifications in the above laws, mutual help and co-operation between the banks themselves, and a wise choice of directorate would remove the above difficulties.

So far we have discussed the past and the present of joint-stock banking in India. To complete the picture it is necessary, now, to say something about its future also.

The outstanding fact in this connection is the vast scope that still exists for the future development of joint-stock banks in India. For example out of 2,300 towns with a population of five thousand and over, only 514 had any banking facilities in 1936. To help and accelerate this development of joint-stock banks in the country two things are necessary. First, there should take place a welcome change in the policy of the Government towards these banks. In place of the present policy of more or less *laissez faire*, the Government should adopt the policy of a well-regulated encouragement and protection from unfair foreign or Indian competition. This would specially require on the one hand the passing of a special Bank Act so that in the sphere of joint-stock banking in India weaklings, and ill-managed concerns with insufficient resources and with little chances of success may be avoided.* It is unfortunate that the question of such a Bank Act has been held over for the time being by the Government in the good name of present abnormal conditions.† On the other hand the Government should also grant certain concessions to these banks just as it has done in case of co-operative banks and societies in the matter of remittance facilities, stamp duties, registration fees, and super-tax.‡ Further the Government should so conduct its credit

*A Bank Act is in the process of being enacted.

†Reserve Bank of India Report 1941.

‡Under the new remittance scheme of the Reserve Bank of India differential treatment to co-operative banks and associations in certain respects is maintained. But the scheme gives greater facilities than before to all, including the scheduled and non-scheduled banks.

operations that the difficulties of the banks in respect of a rise in the price of credit, or a depreciation in the value of their reserves may be minimised. It must be emphasised, however, that a forward policy of the Government limited only to the field of banking would neither be practicable nor adequate. The question of improving the economic life of the nation is an indivisible whole that must be solved in all its aspects, and no price-meal improvement would serve the need.

Secondly, there are a number of matters in which joint-stock banks themselves, if necessary helped by others, need do much. The following are some of the improvements suggested.

(1) The absence of a well-developed bill market in the country is a great hinderance in the way of improved banking. Joint-stock banks helped by the Reserve Bank, other constituents of the Money Market and the Government can improve the situation in this respect. We shall examine this question separately elsewhere.

(2) As noticed earlier in the chapter, reforms in the method of giving loans by joint-stock banks are also urgent. The system of granting clean advances against the personal credit of the borrowers only should be made more and more popular as is the case in western countries. The banks, for this purpose, should try to develop the practice of 'one man one bank' and special organisations like 'Seyd's' in England, and Dun's and Bradstreet's in the U.S.A. for supplying the banks with information regarding the financial status of the borrowers should be established. A more liberal policy in this connection is highly desirable.

(3) A policy on the part of joint-stock banks to increase the number of branches, and where branches do not pay to open in the beginning sub-branches or part-time branches, would also prove of great benefit. The

Indian Banking Committee have recommended that, as the opening of a branch-bank may not always be paying at the start, the Reserve Bank should place at the disposal of the new branch, at a centre where there is already no joint-stock bank, for the first five years, a deposit of such sums on such conditions as it may deem necessary. The committee have also suggested that any bank before opening a new branch should be made to take a license from the Reserve Bank so that a well-ordered development may be ensured. It should also be pointed out here that encouragement of branch-banking does not and should not mean any discouragement either to the establishment of small independent local banks, which also have their advantages, or to the amalgamation of smaller banks into bigger ones or taking over of the former by the latter. In fact they also need encouragement. In case of amalgamations the only point to be taken care of is that monopolistic tendencies should be checked and healthy competition maintained.

(4). The Indian Joint-stock banks should also aim at combining the efficiency of the West with the economy of the East. The present tendency of maintaining a costly and extravagant standard inspired by false vanity should be definitely given up.

(5) To make their services more useful to the nation, these banks, in keeping of course with their resources and safety, should adopt a more forward and bold policy in the matter of financing country's foreign trade, agriculture and industry. Regarding industrial finance, the German system of providing in the beginning the greater part of the initial capital to found new industries and subsequently passing it on to the investing public should be adopted by such joint-stock banks in India as are fit and strong enough for the job. For this purpose the banks in order to distribute the risk may form themselves into syndicates on the

lines of German 'knosortium'. A close touch between the banks and the industries they help would also be helpful. Appointing Bank's Managing Director or Manager as one of the director's of the industrial company financed by it is one way of promoting such a close contact. A more liberal attitude on the part of the banks in matter of security and loans against the personal credit of the borrower only is also suggested.

(6) Lastly there are several other matters though small but an improvement in which would make the services of joint-stock banks to the country more useful than at present. A free use of Indian languages for cheques etc., recruitment of well-trained staff with a knowledge of local conditions and use of indigenous bankers on a wider scale as agents—these are some of the directions in which substantial progress is necessary.

In the end we have only to say that though the development of joint-stock banking in India during all these years has been marred with several difficulties in their way and, deficiencies in their working, yet, in view of the great scope that lies ahead, we can confidently hope for a much brighter future if the Government of the country the Reserve Bank of India as well as the general public, and last but not least the banks themselves fully realise the great responsibility that lies on their shoulders and reform their ways and policies on the lines suggested above.

The Imperial Bank of India :—It was by an Act of the Indian Legislature passed in September, 1920, that the Imperial Bank of India was brought into existence by amalgamating the three Presidency Banks. The Bank has an authorised capital of Rs. 11.25 crores of which Rs. 5.62 crores was paid up in 1921. The latter amount was increased to Rs. 5.63 crores in 1922, and continues at the same figure up to the present. On 31st January, 1945 the Bank had also a reserve of Rs. 6.0

crores, thus making a total of Rs. 11.63 crores in form of capital and reserve both. The strong position that the Bank has always occupied and still continues to occupy in the banking system of our country is easily revealed by the fact that at the end of Jan. 1945 the deposits of the Bank were about 232 crores, when the total deposits of all the Indian joint-stock banks amounted to about Rs. 875 crores and of the foreign exchange banks, to 60 crores only.

The control of the Bank, by the Act of 1920, was placed in the hands of a Central Board, which was responsible for the Bank's policy, for fixing the Bank Rate, for the weekly publication of accounts and for control over Local Boards, and the Local Boards at Calcutta, Bombay and Madras which mainly dealt with the routine work. In the composition of the Central Board, the Government of India had a very great hand. Out of a total of 16 members of the Board, as many as 10 were to be nominated by the Governor-General-in-Council, and only 6 (the Presidents and the Vice-Presidents of the three Local Boards) were elected by the shareholders. Of the 10 Government nominated members, 4 (the controller of currency who was an ex-officio member, and the three secretaries of the three Local Boards) had no voting power. Of the remaining 6 nominated members, 2 were Managing Governors and 4 non-officials representing the Indian community. The Government exercised control over the Bank in other ways also. It could issue instructions to the Bank in regard to any matter which in the opinion of the Government vitally concerned the financial policy or safety of the cash balances of the Government. The controller of currency also, in the aforesaid matters, could hold up any action of the Board and refer it to Government for decision. Thus he acted as a watch-dog of Government's interests. The Government was also empowered to call for any information from the Bank as

well as to appoint auditiors to examine and report on the accounts.

This close control of the Government over the working of the Bank was on the ground of its being, to some extent, a Central Bank for the country also. Thus the Imperial Bank of India, under the 1920 Act, possessed a hybrid character as on the one hand it functioned as a profit making commercial bank and on the other, though not to the full extent, as a Central Bank expected to act as the guardian and trustee of country's credit organisation. This hybrid nature of the Bank was a source of its strength and weakness both, and was well reflected in the functions that it was permitted as well as not permitted to perform.

The functions of the Bank were performed in three distinct capacities of a Government Bank, a Banker's Bank and an ordinary commercial bank.

As a Government Bank, it was the sole custodian of all Government funds, received and made payments in behalf of the Government free of charge, and managed the public debt of the Government of India for a fixed payment* as well as provided machinery for the issue of Government loans. This naturally put an end to the Government Reserve Treasury system which was established in 1876.

As a Banker's Bank it was entrusted with the cash balances of most of the leading banks in the country it fixed the Bank Rate (the rate at which the Bank lent money on Government securities), managed the clearing house business, the supervising staff being supplied by the Bank, and also offered rediscounting facilities to a more or less extent to other banks and bankers in the country. It was also expected to control, guide and help the whole banking sys-

*Its London office managed the rupee debt in London for a fixed payment.

tem of the country, specially in times of distress and difficulty, though the expectation was never fully realised. To help the credit organisation of the country, to meet the seasonal stringency of the currency in the busy season, the bank was given the facility of getting loans from the Paper Currency Department to the extent of Rs. 12 crores on the security of hundis or inland bills of exchange provided the minimum Bank rate was at least six per cent.

Because of its being a public institution (a Government Bank and a Bankers' Bank), the Bank was required to open 100 new branches within five years, the Government deciding the location of one out of every four, and to provide adequate remittance facilities to the banks and the public between its branches at rates approved by the controller of currency. By 31st March, 1926, the Bank opened 102 new branches, 36 only being in those places where there was previously no bank of any kind. On 31st January, 1945 there were in all 419 offices of the Bank in India.

As a commercial bank, the Imperial Bank performed all ordinary banking business though under certain restrictions. Thus it could receive deposits and borrow funds in India though not outside it, except that the London branch could receive deposits or keep accounts from the former customers of the Presidency Banks and borrow money in England for its own business upon the security of Bank's assets. It could invest its funds in certain specified securities only such as trustee securities of both the Government of India and England, certain notified state-aided railway securities, or certain authorised District Board securities and debentures. It could grant loans against the above securities, accepted bills of exchange and promissory notes, and goods or documents of title thereto deposited with or assigned to the Bank. But loans for more than six months, against the security of its own

stock or shares, of immovable property as the original security, or of any negotiable instrument not carrying the several responsibilities of at least two persons or firms unconnected with each other in general partnership or having a date of maturity on the date of the transaction for a longer period than six months, and unsecured overdrafts for more than one lakh of rupees were prohibited. Similarly the amount that could be advanced to any individual or firm by way of discount or on personal security was also limited. The Bank could also draw, accept, discount, and sell Bills of Exchange, and other negotiable securities payable in India or Ceylon. Dealing in foreign exchange was, however, prohibited except in certain cases with the directions of the Government. The limitation of six months was to apply in case of Bank's discounts or purchases of negotiable security also. Lastly the Bank could receive securities, jewels etc. for safe custody, buy and sell gold and also act as agent on commission for such business as sale and purchase of securities and collecting interest and dividends on them. Most of the Bank's financing is limited to the provision of credit for internal trade, though short term finance to industries is also provided to some extent.

With the establishment of the Reserve Bank of India, the Imperial Bank of India has lost its character of a Bankers' or Government Bank and under the Amendment Act of 1934, Government and other control over the Bank and its business has largely been relaxed.

Out of a total of 16* members of the Central Board, the Government can now nominate only 2 non-officials, and can further appoint an officer to attend the meetings of the Board without a right to vote. The only other power retained by the Govenor-General-in-Council is of

*16 Members are: 1 Managing Director, 1 Deputy Manging Director, 2 Government Nominees, 9 Presidents and Vice-Presidents of Local Boarbs, and 3 Secretaries of the three boards.

appointing auditors to examine and report on the accounts of the Bank.

Similarly old restrictions regarding receiving deposits or borrowing funds outside India, or dealing in foreign exchange and foreign bills have been removed. In certain matters there have been relaxations. Thus the period for loans and regarding discounting of bills of exchange has been extended from six months to nine months but only for purposes of financing seasonal agricultural operations. The number of the type of securities against which the Bank can now lend has also been increased, some of the additions being debentures of limited liability companies subject to the direction of the Central Board, goods hypothecated to it (Bank) and not only goods or documents of title thereto deposited with it, certain authorised debentures or other securities issued by or on behalf of a Municipal Committee, and shares of the Reserve Bank. There are, however, a few cases of old restrictions still continuing. Thus the Bank cannot give loan upon the security of its own stock or shares, upon the mortgage or security of immovable property, or upon the security of a negotiable instrument not carrying the several responsibilities of at least two persons or firms unconnected with each other in general partnership. The amount of loan by way of discount or on personal security to an individual or firm also remains limited.

The above restrictions are justified on the ground that the Imperial Bank has been given the privilege of being the sole agent of the Reserve Bank in places where the Reserve Bank has no branches of its own and will in that capacity conduct the Government's treasury business and hold government balances. Further, there is the obligation on the Imperial Bank to keep open branches not less in number than those existing at the time the Reserve Bank came into existence. The Imperial Bank

would receive for a period of 15 years a fixed payment for this service from the Reserve Bank.

So far as the working and achievements of the Imperial Bank of India are concerned, the Bank has been subjected to a lot of criticism specially from nationalist quarters. Its European management and European staff have been a cause of very great suspicion against it in the public mind, and as a result it has been accused, not always wrongly, of a strong anti-Indian out-look and racial discrimination in favour of foreign custom and business interests. As a Banker's Bank, far from commanding an implicit confidence and leadership in the banking world, it has sometimes been charged of offering an unhealthy rivalry to Indian joint-stock banks. Complaints are also made that the Bank did not encourage the use of trade bills, mitigate the seasonal stringency in the Indian Money Market to any appreciable extent, train Indians in the business of banking and improve the interest situation in the country to any satisfactory limit. Even allowing for a margin of exaggeration, there is no doubt that all has not been well with the Bank and its non-Indian management and staff have largely detracted from the good, it was otherwise capable of doing to the country's banking needs. Now that it has been relieved of its hybrid character and is free from several inhibitions under which it laboured so far, it behoves the Imperial Bank of India to fully cast its lot with the Indian banks of the country and take an active lead in improving and organising the country's banking system on better lines. It should stop non-Indian recruitment to its staff, Indianise its management and superior services, follow a more liberal policy regarding rediscounting of bills, and financing of agriculture, industry and the foreign trade. It is only on the basis of these improvements that the Bank would really be able to occupy that position of national service which should be its only objective.

The Reserve Bank of India:—We are living in an age of money economy. The stability of our economic system within the framework of the existing capitalist order of society is to a large measure affected by the monetary conditions prevailing at a particular time. It is a foregone conclusion which no one would challenge that a well-organised and controlled monetary system is the first requisite of a country's economic progress and prosperity. The objective to be kept in view is the maintenance of not an absolute but a relative stability in the purchasing power of money. This calls for a double control, on currency as well as credit. Because it is a well-known fact which need not be reiterated that in all economically advanced countries much of the demand for purchasing power is to-day met not by the currency of the country having a legal sanction behind it but by credit which the banks constantly and uninterruptedly manufacture. Hence the necessity to control currency as well as credit. The next question to be answered is regarding the agency of this control. To take currency first, because of the fundamental importance of a stable currency for the well-being of every nation, at the first instance "it might appear as if the state itself should carry out this vital national-service." But on a second thought the inconvenience and the danger inherent in such a scheme of things become clear. The rate of discount is the chief weapon of this control, and since it is properly the instrument of a bank, there is a sound economic reason for entrusting this control to the hands of a bank and not to the state. But there is a political aspect also. If the management of currency, which also means the right of note-issue, is under the control of the state itself, the danger of government's misusing its power of printing notes to meet its financial needs is always there. This, however, must be avoided. Thus on grounds, both economic and political, a bank is the proper agency to control currency. And

to make the control effective, not divided responsibility but centralisation of it in a single authority is essential. The Central Bank of the country is such an authority. Looking at this problem from the view-point of credit-control, we arrive at a similar conclusion. To ensure that the different banking institutions functioning in the country and performing the important work of dealing in credit move in one step and follow the same policy, it is highly necessary that they should be subjected to a common leadership and controlling power which would guide them in the best interests of the nation not only in normal times but specially in times of crisis and difficulty when its help and support would be most required and valued. A Central Bank well-equipped with the centralisation of country's reserves can only shoulder this great and onerous responsibility. Further, it is also very important to remember that to achieve a relative stability in the community's purchasing power independent and separate control over currency and credit is not what is required. The problems of currency and credit are closely knit and only a co-ordinated control over the two in the hands of a single institution would serve the purpose. A Central Bank only is fit to achieve such a co-ordination because of its close contact with the country's money-market and its inherent capacity to influence it. No State in the very nature of its purpose and constitution can take up the responsibility and discharge it better. This unified control and co-ordination possesses some other advantages also. The waste and duplication involved in maintaining separate and independent currency and banking reserves with ill-defined and overlapping functions, as was seen in India before the establishment of the Reserve Bank in 1935, would be avoided by the existence of a Central Bank as the currency and credit authority of the country. The Central Bank would also be a suitable agency for international co-operation in monetary matters the need for which

is bound to arise after the end of this international gangsterism that has overpowered the world to-day. Some of the good results that follow the establishment of a sound and effective Central Bank in a country may be enumerated thus : uniformity and levelling down of interest rates between different times and places, provision of adequate rediscount facilities to the country's banks thus giving them an opportunity of self-liquidating investments, relieving the government of many of its financial and semi-financial duties as management of cash balances, and public debt, extension of remittance facilities to the banks and the public, the existence of expert advice and experience in financial matters and an expansion of banking facilities and diffusion of banking knowledge and practice in the country. Thus from the above discussion it is more than clear that the existence of a central banking institution is the first *sine quo non* for the functioning of a sound financial system, and every country should possess it.

The question of establishing a central bank for India has been long debated. Starting with Warren Hasting's scheme of a private bank in 1773 which functioned for sometime under the name the "General Bank", before it was vetoed by the Company's Directors, we come to another scheme of Rickards in 1808 more elaborately planned than the first one on the lines of a quasi-public institution which, however, met a similar fate, the project being not sympathetically viewed by the Governor-General and rejected by the Court of Directors. Another proposal was made in 1836 by a body of "East India Merchants" which, however, fell through as the Bank of Bengal agreed to take over all the duties expected of the new bank. With the establishment of the Presidency Banks of Bombay and Madras, the idea of turning the Bank of Bengal into a Central Bank gave place to that of amalgamating the three Banks into an all-India bank. Mr. Dickson in a memorandum put forth the idea in 1868

but nothing came out of it. Thereafter the question was discussed on the occasion of the Fowler Committee by one of its members in a separate note, and Mr. Keynes put forward a scheme for a State Bank before the Chamberlain Commission in 1913. The experience of the world-war of 1914-18 further impressed upon the public as well as the Government the urgency of instituting a central bank for the country and the resolution passed at the Brussels' International Conference (1920) to the effect that "in countries where there is no Central Bank of Issue one should be established" put the final seal over the whole question. Accordingly in 1921 was established the Imperial Bank of India. Though partly performing the work of a Central Bank, yet the existence of the Imperial Bank did not close the issue of a brand new creation and the Hilton Young Commission in 1926 on an examination of the whole question recommended the starting of a separate shareholder's bank in India to act as a Central Bank for the country. The Commission took the view that the development of modern banking in India requires that a bank of the status and resources of the Imperial Bank should be entirely free for carrying on the functions of commercial banking only. On January 25, 1927, the late Sir Basil Blackett, introduced a Bill in the Legislative Assembly based on the recommendations of the Hilton Young Commission. From the very start difficulties were encountered on the questions of State *vs.* Shareholder's Bank and the composition of the Bank's Board. Though the government ultimately accepted the scheme of a state bank, but no agreement could be arrived at on the question of the Directorate. The Government insisted that members of Legislature should be disqualified to become members of the Board of Directorate, whereas the majority in the Assembly held the opposite view. Thereupon the Bill was dropped by the Government. Then in 1928 the Government

published another scheme for a Reserve Bank of India and reverted to the original proposal of a shareholder's concern. But President Patel refused to call upon the Government to introduce the new Bill on February 1, 1928 on the ground that no new bill could be introduced unless the old bill was withdrawn. The Finance Member then decided to proceed with the old bill and as a result there arose the old controversies. Therefore the Government gave up the attempt which for a successful termination had to wait for another six years. When the question of fresh constitutional reforms was taken up, the problem of a Reserve Bank for India again came to the front. The Central Banking Committee also emphasised the vital importance of a Reserve Bank to the country. Ultimately the "White Paper" proposals on Indian Constitutional Reform of March, 1933 made the establishment of a Reserve Bank for India, a condition precedent to the inauguration of a responsible Federal Government. A Committee was appointed for the purpose and on the basis of its report a bill was introduced in the Legislative Assembly in September, 1933 which passed through both the Houses in February, 1934 and received Governor-General's assent on March 6, of the same year. The Reserve Bank of India actually came into existence on 1st April, 1935.

Coming to the constitution of the Reserve Bank of India, we find that the central management of the Bank is vested in a Central Board consisting of a Governor and two Deputy Governors appointed by Governor-General-in-Council after considering the recommendation of the Board in that behalf; four Directors nominated by the Governor-General-in-Council; eight Directors, elected by the elected members of the Local Boards—two from Bombay, two from Calcutta, two from Delhi, one from Madras and one from Rangoon; and one Government official, nominated by the Governor-General-in-

Council. The last named Director and Deputy Governors, however, shall not be entitled to vote. The nominated official shall hold office during the pleasure of the Governor-General and the other Directors for five years. The Local Boards consist of five members each elected by share-holders of respective share-registers from amongst themselves and not more than three members each nominated by the Central Board from the local shareholders. The Local Boards are mainly advisory bodies having no specific powers and duties conferred by the Act. They would have to perform only the work that the Central Board delegates to them. The Bank has already its offices in Bombay, Calcutta, Delhi, Madras and Rangoon* and a branch in London. It may establish branches,† or agencies at any place in India, and with the consent of the Governor-General-in-Council, elsewhere.

The Bank has been started with an original capital of Rs. 5 crores divided into shares of Rs. 100 each fully paid up and distributed amongst the different Share-Registers maintained at Bombay, Madras, Calcutta, Delhi and Rangoon. Recently a tendency towards the concentration of Bank shares in fewer and fewer hands was noticed to prevent which the Bank Act was amended in March, 1940. Under this amendment no person can be registered as a shareholder in respect of any additional shares acquired after 26th March, 1940 by him so as to bring the total value to more than Rs. 20,000. Each share holder gets one vote after every five shares with, however, a maximum of 10 votes only. As shareholders are less interested in taking any active participation in controlling the affairs of the Bank than in their rate of dividend, which has been already guaranteed to them, it is likely that in spite of the above limitation on voting the tendency towards concentration would continue within the maximum set

* Rangoon Branch at present is under suspension.

† Some branches have been opened at important commercial and industrial centres.

by the above amendment. Ownership of shares is not restricted to Indians but is thrown open to all citizens of the Empire. Non-British subjects are, however, deprived of the privilege.

The Act specifically lays down the functions that the Reserve Bank is permitted to perform as well as those, it cannot perform. A close analysis of these functions clearly shows that the Bank, except when it becomes necessary to control credit, does not engage in the business of ordinary commercial banking so as to come in competition with the other banks carrying on this business. Being a Central Bank, the Reserve Bank of India acts not only as a currency authority, but also as a Government Bank as well as a Bankers' Bank.

As the currency authority of the country, the Bank has been given the sole right of note-issue, the right of the Government to issue notes having come to an end thereby. The bank notes are legal tender and are guaranteed by the Governor-General-in-Council. The old Government of India notes were taken over by the bank and issued by it. It was in January, 1938 that the Reserve Bank of India notes were first issued to the public. There is an obligation on the Bank to convert the notes into rupee coin and *vice-versa*. The Bank shall, in exchange for notes of five rupees or upwards, also supply notes of lower value or other coins which are legal tenders in such quantities as may, in the opinion of the Bank, be required for circulation. The Bank notes shall be of the denomination of five rupees, ten rupees, fifty rupees, onehundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees unless otherwise directed by the Governor-General-in-Council on the Central Boards' recommendation.

The issue of bank notes shall be conducted by an Issue Department of the Bank which shall be kept separate

from the Banking Department. This separation of the Issue Department from the Banking Department is, however, not at all necessary in India as it is in case of England where the profits of note-issue belong to the Treasury and the rest of the profits to the Bank of England. The separation of the Issue Department and its assets from the Banking Department and its assets make the calculation of profits on this basis convenient. In India the basis adopted for the distribution of profits between the Bank and the Government is different. Hence there exists no justification for the seggregation of the two Departments on the British model. It on the other hand possesses the additional disadvantage of not showing the Bank's liabilities as one comprehensive whole.

Coming to the system of reserve adopted, the Reserve Bank Act has rejected the principle of fixed fiduciary issue in favour of the Proportional Reserve system. In view of our greater need for an elastic currency this is a measure of reform that was long overdue. The provision in this connection is that not less than two-fifths of the total reserve against note-issue shall consist of gold coin, gold bullion or sterling securities provided that the amount of gold shall not be less than Rs. 40 crores in value. The remaining three-fifths of the reserve may consist of rupee coin, Government of India rupee-securities of any maturity and 'eligible' paper payable in British India provided that the rupee securities shall not exceed one-fourth of the total amount or Rs. 50 crores whichever is greater or with the previous consent of the Governor-General-in-Council such amount plus Rs. 10 crores. Gold is to be valued at 8.47512 grains of fine gold per rupee, rupee coin at its face value and securities at market rate. Sterling securities mean balances with the Issue Department of the Bank of England, Bills of Exchange drawn on and payable in United Kingdom within 90 days and Government securities of the United Kingdom maturing within five

years. On payment of a a tax, the Bank can hold gold coin, gold bullion, and sterling of less than two-fifths of the total reserve.

To maintain the stability of the exchange value of the rupee at 1s. 6d., the Bank is under the obligation to purchase sterling from any person at its office in Bombay, Calcutta, Delhi, Madras, or Rangoon for immediate delivery in London at a rate not higher than 1s. 6 $\frac{3}{16}$d. for a rupee, as well as to sell sterling at a rate not below 1s. 5 $\frac{49}{64}$d. for a rupee.

As a Government Bank, the Reserve Bank is required to transact Government business. Thus it has to make and receive payments in behalf of the Government, to carry out their exchange, remittance, and other banking operations, including the management of public debt and issue of new loans. The Bank shall also have the right to transact Government, (Central and Provincial) business in India and shall have a free use of their cash balances. The Bank has not to render these services free but on terms embodied in the agreement.

In addition to the above functions, the Bank is permitted by the Act to transact business of many other kinds also. (*i*) It may accept interest-free deposits from Governments, local authorities, states, banks and any other persons. (*ii*) It may purchase, sell and rediscount bills of exchange and promissory notes drawn on and payable in India and arising out of *bona-fide* commercial transactions or issued or drawn for holding or trading in Government or specified state securities bearing two or more good signatures, one of which being of a scheduled bank, and possessing an outstanding maturity of ninety days. In case of bills drawn or issued for financing seasonal agricultural operations the period of outstanding maturity is extended to nine months, and one of the signatories shall be either a scheduled bank or a provincial co-operative

bank. (*iii*) It may purchase from and sell to scheduled banks sterling in minimum amounts of the equivalent of one lakh of rupees. It may purchase, sell and rediscount bills of exchange drawn in or on United Kindgom with with an outstanding maturity of ninety days provided that in India such dealings would be made with a scheduled bank only. (*iv*) The Bank may make loans or advances repayable on demand or for periods of not more than ninety days to states, local authorities, scheduled banks and provincial co-operative banks against the security of trustee securities, gold or silver or documents of title thereto, eligible paper, or promissory notes of a scheduled or a provincial co-operative bank supported by documents of title to goods. It may make ways and means advances to the Central or Local Governments for a period of not more than three months. (*v*) It may purchase and sell Government securities both of the United Kingdom and of India as also certain specified securities of a local authority or states subject to certain maxima. (*vi*) The Bank may act as agent of the Secretary of State-in-Council, Governor-General-in-Council, a local Government, or a local authority or state in India for the transaction of certain specified business such as purchase and sale of gold or silver, of bills, securities, or shares, or the management of public debt etc. (*vii*) It may open account or make an agency agreement, with or act as agent or correspondent of a Central Bank in any country. (*viii*) The Bank may borrow money for a period not exceeding one month from scheduled banks, or other Central Banks. (*ix*) As already seen the Bank has the sole right of note-issue. (*x*) Lastly, the Bank is also authorised to conduct what is called open market operations if in the opinion of the Bank they are necessary to enforce its policy regarding the control of country's credit organisation. These operations consist in the purchase or sale of securities or eligible bills without the signature of a scheduled or a pro-

vincial co-operative bank or in making loans or advances in the open market. Thus the Bank comes in direct competition with other banks, though not for making profits but for enforcing a policy in the national interest. The Bank engages in the open "market" operations only in special circumstances when it fails to control credit with the help of the Bank Rate. Otherwise the normal weapon of a Central Bank is its Bank Rate. It is, in case of the Reserve Bank of India, the standard rate at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under the Act.* The Bank thus has the discretion to discount agricultural bills at a rate lower than this standard rate.

There are certain kinds of business which the Reserve Bank of India may not transact. Thus it may not engage in trade or have a direct interest in any commercial, industrial or other undertaking except such interest at it may acquire in the course of satisfying its claims; purchase its own shares or shares of any other bank or company or grant loans upon the security of such shares; advance money on the mortgage of or otherwise on the security of immovable property or documents of title relating thereto; make loans or advances; draw or accept bills payable otherwise than on demand; and allow interest on deposits or current accounts.

In order to exerise its control on the money market, the Bank exercises certain control over the scheduled banks, which are banks having a paid-up capital and reserve of not less than Rs. 5 lakhs, and included in the second schedule of the Act. It is obligatory on these

*In case of Bank of England Bank Rate is the minimum rate at which it will discount bills for other than its customers. It is generally fixed above the open market Rate. Before the Reserve Bank was established, the Bank Rate in India was the rate at which the Imperial Bank was prepared to lend money against Government Securities. It was different from the Imperial Banks hundi rate which was the rate at which the Bank discounted first class hundis of approved indigenous bankers maturing after 60 or 90 days. This hundi rate is different from the bazaar rate *i.e.* the rate at which indigenous bankers discount the hundis of small traders and merchants.

cheduled banks to maintain with the Reserve Bank a balance the amount of which shall not be less than 5 per cent. of its demand liabilities and 2 per cent. of its time liabilities in India at the close of business on any day. It has been suggested in this connection that as such a distinction encourages a shifting of current to time deposits, a composite reserve backing might, therefore, have been better. Regarding the present qualification of a capital and reserve of at least 5 lakhs for admitting a bank to the category of scheduled banks, the criticism has been made that as in India banks with capital and reserve of less than 5 lakhs have an important rôle to play in the future development of its economy, the condition of scheduling to the bank should be fixed at a minimum of 1 lakh of capital and reserve. Further, an additional condition of an uninterrupted existence of 10 or 15 years, which should be regarded as a clear proof of banks' stability and usefulness, is also suggested. Every scheduled bank shall also send to the Governor-General-in-Council and to the Bank a weekly return showing its demand and time liabilities in India, the total amount held in India of Government of India securities and Bank notes, the amounts held in India in rupee coin and subsidiary coin, and the amounts of advances made and of bills discounted in India and the balance held at the Bank. In case a scheduled bank fails to keep the minimum reserve with the Bank it has to pay a penal interest which is above the Bank Rate. Similarly for failure to submit weekly returns a penalty of one hundred rupees per day has to be paid. The Bank may also require any provincial co-operative bank with which it has dealings to furnish the weekly return though it cannot be compelled to maintain a portion of its reserve with the Bank.

Since 1938 the Reserve Bank has been receiving cash reserve returns from the non-scheduled banks also. The Bank has also offered to advise and guide non-sche-

duled banks with a paid-up capital of Rs. 50,000 or over provided they furnish it with information about their operations. Many non-scheduled banks have thus developed contact with the Bank which shall be of great help in the development of a sounder banking system in the country. The total number of non-scheduled banks submitting returns was 601 at the end of December, 1941. By 1945 the number of such banks has gonedown a little.

The Bank has attached to it a special Agricultural Credit Department which maintains an expert staff to study all questions of agricultural credit and be available for consultation by Governments, provincial co-operative banks and other banking organisations. The Department has also to co-ordinate the operations of the Bank and its relations with provincial co-operative banks and any other banks engaged in the business of agricultural credit. The Department has published a preliminary report and a statutory report on the subject of agricultural credit and co-operation, the latter containing the proposals for linking the indigenous banking to the Bank. Nothing, however, has come out of these proposals. Thus though the Agricultural Credit Department has so far not succeeded in solving the most thorny problem of linking the indigenous banker to the Reserve Bank, it has, however, been doing much useful work by producing literature and rendering advice to those who have sought it.

The Bank is required to make a weekly return to the Governor-General-in-Council of the account of the Issue and Banking Departments in the prescribed form. The Bank has also to submit a copy of its annual accounts to the same authority. The Bank's Weekly return gives an idea about its affairs and is important for the study of the country's money market.

As already noticed in the last chapter, the Imperial Bank of India has been granted the sole privilege of acting as an agent of the Reserve Bank where the latter has no

branch of the Banking Department and the former has. The agreement has been entered into for 15 years after which it is liable to be terminated by either party after five years' notice. The Imperial Bank would receive a commission from the Reserve Bank which is liable to revision after ten years. The Imperial Bank will have aslo to maintain the number of branches it had at the time of the establishment of the Reserve Bank for which the Reserve Bank would pay to the former for the first five years Rs. 9 lakhs, for the next five years Rs. 6 lakhs, and for a period of another five years Rs. 4 lakhs. This special treatment with the Imperial Bank in making it the sole agent of the Reserve Bank has been much criticised.

We have so far described the existing organisation and functions of the Reserve Bank of India. Let us now offer a criticism of the existing arrangement, and discuss the various limitations under which it works and the achievements it has made during the past eight years.

Regarding the constitution of the Bank, much has been made of keeping it independent of political influences. The Government has all along opposed the scheme of a State Bank precisely on this ground. But a close examination of the present constitution of the Bank and the way in which the management has to work in practice leads us to the unfortunate conclusion that though Indian political influences have been successfully kept at an arm's length from the affairs of the Bank, the British political influences would have the fullest access. The Governor of the Bank would be a Governor-General's nominee and it is he who, being a whole time officer, would wield the greatest power in practice. The Board of Directors itself will be dominated by the Governor and other nominated members and the election of the representatives of shareholders would be indirect. Though the majority in the Board is of the elected members, yet circumstanced as we are,

it would not be difficult at all to find amongst the elected element persons who would side the Government block and give it the actual majority. Thus it is wrong to assume that in reality the Reserve Bank is free from political influence. It is, under its present constitution, bound to function as a hand-maid of British imperialist interests in the country.

The next point is about the capacity of the Bank to effectively control the credit organisation of the country. Here it is important to remember that a large section of the country's banking system represented by non-scheduled banks and the indigenous bankers are still outside the control of the Bank. The present practice of the banks to keep the excess reserve (above the fixed minimum kept with the Reserve Bank) in their own vaults reduces their dependence on the Reserve Bank whose resources are thereby adversely affected to that extent and as a result its power to control the credit machinery is also limited. The undeveloped condition of our bill market, existence of disparities in interest-rates, presence of banks with a wide net-work of branches in the country, and easy money conditions that have prevailed since the very inception of the Bank have also conspired together to make the Reserve Bank a less effective machinery for credit regulation through the Bank Rate. The effectiveness of the Banks' "open market" operations is also greatly hampered owing to its limited resources possessing little elasticity as could be possible if the Bank has a statutory power to create and sell its own debentures and short-term bonds and raise the proportions of the compulsory reserves of the scheduled banks held with the Bank. The limited capacity of the stock exchanges in India is again a further hinderance in the Bank's way. Thus it is clear that the Reserve Bank of India has various difficulties to overcome before it can function as an effective credit authority in the country, and it is regrettable to remark that so far the Bank has

not been successful in solving any of them. But in fairness to the Bank it must also be admitted that it has achieved success in maintaining external stability of the Rupee, doing Government-banking business, including the management of public debt and issue of new loans, giving of much valuable and expert advice on questions like those of agricultural credit or a Bank Act in India, in stimulating the extension of banking facilities in the country and in the elimination of seasonal extremes in the rates of interest, though about the last point a doubt has been raised that whether this mitigation of seasonal stringency is due to a definite policy of the Bank or the existence of easy money conditions about which a reference has been already made.

THE PROBLEM OF BANKING LEGISLATION.

The question of the development of a sound and national system of banking is very closely connected with the existence of some sort of banking legislation to regulate the working of banks in the country. Such a legislation is necessary not only to safeguard the interests of the depositors who entrust their savings to banks but also to protect the banks themselves from the existing unfair competition of foreign banks doing business in India. Though there exist a few precedents, as in England, where a special Bank Act has not been thought necessary, but so far as India is concerned it has been generally admitted that, in view of her backwardness in banking and her great need to ensure that the future development follows on strictly national lines, the enactment of a special Bank Act is not only desirable but highly necessary.

The Bank failure of 1913-14 for the first time brought the problem of banking legislation in India to the front and since then the necessity has been increasingly realised. The Central Banking Enquiry Committee also recommended the passage of a special Bank Act and the recent banking crisis of 1938 in southern India demonstrated the importance of such a measure to a still greater extent.

Thus the question has assumed, in recent years, a geat practical importance and demands a more detailed study on our part.

The joint-stock banks in India are at present governed by the Indian Companies Act of 1913 as amended in 1936. The Act in certain matters contains a few special provisions applicable to banks only. Before the amendment made in 1936, these special provisions related to the compulsory registration of a banking company in case the number of members exceeded ten, to the filing with the Registrar of a copy of the Balance-sheet drawn up in a prescribed form showing separately secured and unsecured debts without disclosing the provision made for bad and doubtful debts, and to the appointment of inspectors to examine the affairs of a banking company in case the members holding not less than one-fifth of the shares issued so demand. By the amendment of 1936 these special provisions have been further extended by adding a number of new sections to the Act. These new sections deal with the following matters:—

(*i*) **The definition of a bank:**—It has been defined as a company which carries on as its principal business the accepting of deposits on current account or otherwise subject to withdrawal by cheque, draft, or order side by side with any one or more of the several specified forms of business such as borrowing and lending of money, dealing in bills of exchange, or foreign exchange, issuing of letters of credit, underwriting or dealing in stock, shares, debentures etc., acting as agents for governments or private persons, and promoting or financing any business undertaking or industry.

(*ii*) **Limitation of activities:**—It has been laid down that no banking company shall be registered under the Act unless it confines itself to banking business only as specified in the Act.

(*iii*) **Employment of Managing Agent:—**The Act prohibits the management of a banking company by a managing agent.

(*iv*) **Restriction regarding minimum capital:—** No banking company is permitted under the Act to commence business unless a working capital of 50,000 rupees has been raised by the allotment of shares.

(*v*) **Charge on unpaid capital:—**No banking company shall create any charge upon the unpaid capital of the company.

(*vi*) **Reserve Fund:—**Every banking company shall out of declared profits of each year and before any dividend is declared transfer not less than twenty per cent. of the profits to the Reserve Fund until the amount of the said fund is equal to the paid up capital.

(*vii*) **Cash reserve:—**Every banking company shall maintain a cash reserve of at least one and a half per cent. of the time liabilities and five per cent. of demand liabilities of the company.

(*viii*) **Restriction on the nature of subsidiary companies:—**A banking company is not allowed to form or hold shares in any subsidiary company except one of its own formed for the purpose of undertaking and executing trusts, undertaking the administration of estates, and such other purposes as are incidental to the business of accepting deposits of money on current account or otherwise.

(*ix*) **Power of Court to stay proceedings:—**In order to save a banking company from liquidation on account of temporary difficulties, the Act lays down that the court may grant a moratorium for a fixed period by staying proceedings against such a company provided the company applies for the same and the application is supported by the report of the Registrar. For purposes

of his report, the Registrar can investigate into the financial condition of the company.

Through the above extended provisions of the Indian Companies Act as amended in 1936 have certainly improved the position to some extent regarding the regulation of banking in India, but they are not comprehensive enough to obviate the need for a separate Bank Act. Hence the need for the same continued to be felt. It was in response to this need that the Reserve Bank of India gave detailed consideration to the question of banking legislation for India. In November, 1939 the Bank submitted, in form of a draft-bill, a series of proposals concerning a Bank Act to the Central Government. The Government circulated them in January, 1940 for public opinion. But later on the Government informed the Bank that "in the present abnormal conditions they did not consider it feasible to undertake immediately comprehensive banking legislation, which, in view of the lack of unanimity of opinion in the country, might be contraversial to a high degree." The Government, therefore, decided to drop the question of banking legislation for the present. It, however, contemplated that some interim measures involving the minimum of legislation might be adopted in order to improve the administration of the present law relating to banking. "A proposal was accordingly circulated by the Government during the year with the object of removing the difficulties of interpretation created by the present definition particularly those arising from the use of the words 'principal business'." Under this proposal it is intended to amend the existing definition by adding an explanation that any company which uses as part of its name the word 'bank', 'banker', or 'banking' shall be deemed to be a banking company irrespective of the fact whether its principal business is or is not one that is provided in the Act.* Before we proceed to examine the

*Reports of the Reserve Bank 1941, 1942.

proposals of the Reserve Bank regarding the Bank Act, it must be remarked that it is really regrettable that in the name of abnormal conditions the Government decided to hold over such an important question of banking reform. In fact under the present inflatory conditions of war time, the need of a sound banking legislation to ensure the development of banking on sound and safe lines is much greater than it was ever before.

Coming to the Reserve Bank's proposals for a Bank Act. First, the proposals aim at a simpler and more restricted definition of banking, and banking companies. Here it is important to remember that the problem of defining a bank has always been a very difficult one and the existence of a large number of indigenous bankers in case of India increases the difficulty much more. To meet this difficulty it has therefore, been suggested that without attempting an exact definition of a bank on authoritative and conclusive register of banks and bankers be framed and the situation presented by the indigenous bankers should be met by providing for their enrolment as members of the All-India Bankers' Association on the fulfilment of certain conditions.* Another way out of difficulty would be to define banking as 'accepting of deposits on current account or otherwise subject to withdrawal by cheque' and thereafter saying that a banking company was one which did banking business.†

Secondly to ensure that banks possess at least a certain minimum working capital necessary for carrying on banking business on sound and profitable lines, the draft proposals make an improvement on the already existing provision regarding capital in the Indian Companies Act. They prescribe (*i*) a minimum paid up capital of Rs. 1 lakh before a banking company should be permitted to start business; (*ii*) a minimum capital of Rs. 5

*Banking in India by Panandikar.

†Jathar and Beri, Vol. II, pp. 443.

lakhs, if the bank does business at Bombay or Calcutta, in respect of each such place, and (*iii*) a minimum paid-up capital of Rs. 2 lakhs if it does business at places with a population of 1 lakh, for each such place. Further, no bank with a paid-up capital and reserve of less than Rs. 20 lakhs will be allowed to operate outside the province or state in which it has its principal place of business. These provisions are an improvement on the existing one in so far as they prescribe a higher minimum and apply to all the banks either existing or new as against the existing provision which does not apply to banks that existed before the said provision was enacted. There are, however, certain other points that have been raised in this connection. For example, it is pointed out that the above proposals by implication admit that depositors in bigger places, which as a rule contain well-known banks, require greater protection than those in the smaller places. Similarly it is also assumed that smaller banks have no suitable business in bigger places although the fact is that they contain many small crafts and industries. To remedy these drawbacks the suggestion offered is that a certain minimum average of resources, per office, say 3 lakhs, should be fixed. There is no doubt that such a minimum would exercise a healthy check on the unrestricted expansion of branch-banking in the country and would ensure protection to depositors in small places as well.

Thirdly the draft will also lays down that the subscribed capital shall not be less than 50 per cent. of the authorised capital and the paid-up capital shall not be less than 50 per cent. of the subscribed capital. This would check the scandal of issuing prospectuses with a very large authorised capital while in practice having a very small working capital.

Fourthly the bill also prescribes that not less than 30 per cent. of their time and demand liabilities shall be held in form of cash of unencumbered approved securities.

This would mean a guarantee fund to protect the interests of the depositors.

Fifthly there is provision in the draft proposals to protect British Indian depositors in the case of banks incorporated outside British India by requiring them to maintain 75 per cent. of their British India liabilities in the form of assets in British India.

Lastly important provisions have been suggested in the bill to expedite and simplify the liquidation proceedings of a bank so that in the event of a bank failure the depositors may be paid off with minimum of delay and litigation expenses. For example to avoid the high cost of liquidation the Reserve Bank is to be recognised as the liquidator in all cases of banks.

Besides the above proposals the draft bill retains the existing provisions in the Indian Companies Act such as those relating to cash reserves, reserve funds, creating a change on un-paid capital, employment of managing agents and restrictions on the nature of subsidiary companies. Every bank under the proposed Act will be required to submit to the Reserve Bank on a fixed day in the year a return of the amount of its time and demand liabilities showing that its assets were not lower than 75 per cent. of its liabilities. The draft bill excludes from its scope all indigenous and private bankers as well as co-operative banks or other banks that are governed by any special Acts relating to them.

The draft bill no doubt goes a long way to improve the existing situation about the regulation of banks in India. But there are certain matters in respect of which it needs further improvement. The first point is about the scope of the bill. To make regulation of banking in India really effective, it is necessary that indigenous and private bankers should not be left out of control. Secondly the new Act should require all-Indian and non-Indian

banks to obtain from Reserve Bank of India a license. This would help a systematic expansion of banking in the country and a substantial measure of general control over all banks by the Reserve Bank of India would be secured. The terms of licenses should be stiffer in case of foreign banks than in that of Indian banks. Thirdly to ensure sound internal working of a company the Act should lay down that the Memorandum and Articles of Association of a bank shall provide for such matters as prohibiting loans on the security of bank's shares, and limiting loans to bank's directors and other officers, etc. Fourthly the Act should provide that all banks doing business in British India, excepting foreign banks, should have a majority of Indian directors and that no new bank other than a foreign bank should be allowed to operate in British India unless it has a majority of Indian shareholders. Fifthly a banking company should be required to maintain a separate index of the names of its shareholders ready for reference and inspection by the latter and a similar register of shares owned by non-Indians should also be prepared. Sixthly provision should be made that transfers of shares are registered within a fixed period to prevent undue delay and that mortgages on bank's property are also registered. Seventhly the Act should lay down a new form of Balance Sheet in place of the present one which would provide more detailed information. For example loans granted by the banks to directors, managers, and secretaries should be shown separately; so also the loans granted to a limited company in which any of the bank's directors are members of the managing agent's firm. The investments should be classified into three categories (*i*) gilt-edged and trust securities, (*ii*) debentures (*iii*) other items. The present practice of showing debts as secured and unsecured should be discontinued as it unnecessarily frightens the shareholders and creditors of the banks concerned. The Reserve Bank should be

given the freedom to decide if banks should publish any other periodical returns about their assets and liabilities and the foreign banks should be required to supply the Reserve Bank in addition to a periodical statement an annual statement showing their assets and liabilities about their Indian business. Such then are some of the important improvements that should be incorporated in the draft proposals to make them fully satisfactory.

In the end it is necessary, however, to remark that though a special Bank Act containing suitable provisions about (*i*) Organisation, (*ii*) Management, (*iii*) Audit and inspection and (*iv*) Liquidation and amalgamation is essential for the sound development of banking in India and that the passage of such an Act is already overdue, but too much reliance on mere legislation would not do. Because on the one hand no amount of banking regulations and restrictions can check unsound management altogether and on the other meticulous restrictions at times may do more harm than good by lessening the responsibility of Directors and Managers. Therefore it is never to be forgotten that a well thought out banking legislation shall have always to be supported in the last resort by a wise selection of good management in order to ensure banking progress in the country on sound and healthy lines.*

THE PROBLEM OF A BILL MARKET.

One of the essential requisites of a sound system of banking in a country is the existence of a well-developed bill market. The need and importance of such a bill market in these days of credit economy are obviously great. Bills are a great help in the financing of trade, industry and agriculture of a country as their use obviates the necessity of using money for such purposes to a great extent. They make it possible that the credit-worthiness of business men and industrialists is actually harnessed to the development of a country's economic life. Further, they offer

*The Bill is in the process of being passed.

a very good and self-liquidating outlet for the investment of banks resources, and also help to make the control of the central bank of a country over the banking system more effective and real. Thus a wide-spread use of bills by traders and business men in a country is highly desirable and must be encouraged. But the position in India in this respect is far from satisfactory. There is a great scarcity of commercial bills in the country and only a very small proportion of their assets, the banks in India invest in them. Let us, therefore, first examine the causes of this scarcity and then suggest remedies for their removal. Here, however, it should be remarked that the prevailing scarcity of commercial paper in India is not owing to the ignorance of the public regarding their utility or reluctance to use them. We have already noticed that 'hundis', the indigenous bill of exchange, have been in use in India since very old times.

The various causes responsible for the scarcity of commercial bills may now be mentioned: (*i*) The banks in India have to maintain a stronger liquid position as the banking habit of the people is not well-developed. They, therefore, prefer investment of their assets in Government securities which also offer attractive interest rates to investment in bills. (*ii*) Before the establishment of the Reserve Bank of India, the Imperial Bank of India functioned as a banker's bank with which other banks could rediscount their bills. But banks in India for various reasons did not like to rediscount their bills with the Imperial Bank. The Imperial Bank was looked upon as a rival and as such the banks did not like to disclose their position to it. The rediscounting was regarded as a source of weakness by the money market. The Imperial Bank also did not offer any concessional rates of discount to other banks nor it laid down any standards about the bills that it was prepared to discount. (*iii*) The banks sometimes are not in a position to ascertain the financial standing of the signato-

ries of a bill. (*iv*) Many of the internal bills are not genuine trade bills drawn for the purposes of financing a business transaction concerning a sale or purchase of goods but are finance bills representing money-lending transactions. Besides this in the case of a bazaar hundi it is also difficult to find out whether it is a finance bill or a genuine trade bill since it is not always accompanied by documents like sale contracts, invoices, documents of title etc. (*v*) The wide prevalence of the system of cash credit is also a hinderance in this respect. (*vi*) Other difficulties in the way of the free use of hundis are a great number of languages used in drawing hundis and diversity of customs prevailing regarding days of grace etc.

The existence of a central bank in a country has been recognised on all hands as the first necessary step for the promotion of a bill market. Because it is only a central bank which by co-ordinating the different constituents of the money market, establishing a unified control over credit and currency and offering rediscounting facilities to other banks can encourage the use of commercial bills to a large extent. With the establishment of the Reserve Bank in India in 1935, it is only natural to hope for such a development of bill market here also. But as has been pointed out elsewhere, so far the Reserve Bank has not achieved any marked success in this respect. And so long as the problem of linking the indigenous banking with the modern banking in the country is not solved by the Reserve Bank, its success in the field of promoting a bill market is bound to remain unachieved. Besides this, the Reserve Bank so far has also not used its discretion to charge higher rates for giving loans against gilt-edged securities than the rate of discounting bills of its member-banks. The exercise of such a discretion is bound to encourage the use of bills. The Reserve Bank should also conduct educational work to bring home to traders and producers the utility of giving full information

about their financial standing to their banks so that the latter may not refuse to discount their bills only for want of necessary information about the nature of the bill and the financial standing of its signatories. By encouraging the indigenous bankers to adopt bill broking as an integral part of their business as well as to induce them and their rich depositors to form discount houses under its aegis, the Reserve Bank can further help in the promotion of a bill market in India.

There are various other steps also that are suggested for the development of a bill market in the country. The establishment of warehouses and godowns under proper management in different parts of India would be useful in replacing the finance bills by genuine trade bills which the banks would readily agree to discount. The warehouse receipts granted by these warehouses would act as a good support to the trade bills. Similarly the sale of printed bill forms in English and in important Indian languages by post offices, standardisation of the essential features and customs relating to hundis, so as to promote their circulation, and making the noting of dishonour and protest by recognised associations of banks, shroffs or merchants so as to do away with the existing inconvenience experienced at present by the owners of the hundis in going to the Government officer appointed for this purpose, would also help a good deal the work of making the use of bills more popular than it is at present. Reduction of discount charges would also facilitate the use of bills more freely. A high stamp duty so far was also a hinderance, but on the recommendations of the Reserve Bank with effect from January, 1940 the stamp duty was reduced to two annas for every one thousand rupees or part thereof of the amount of usance bills payable not more than one year after date or sight.

Lastly there are several transactions in the country in which at present bills are used to a very small extent

and an extension to which would prove useful for the promotion of a bill market. Thus bills should be used in respect of financing the agriculturists for the growing of crops, financing the marketing of crops, financing of village bankers by shroffs, and financing of the movement of goods from the port town to the interior. For example it has been suggested that agriculturists should become members of co-operative godowns and the latter should draw bills on the *former*. The bills then may be discounted with central co-operative banks and they in turn may rediscount them with other banks. The cultivators can obtain finance on the harvested produce from the co-operative godowns. The cultivators can also obtain finance on harvested produce by permitting village bankers to draw bills on them. The village bankers may then discount the bills with shroffs and the latter in turn with the joint-stock banks. A further scope for introducing the use of bills is in connection with the replacement of the present cash credit system by bank acceptances in the financing of the export trade of the country.* Under the system of bank acceptances, a purchaser of goods on whom the seller draws a bill of exchange, arranges beforehand with his bank to have the bill accepted by it which the seller can then readily discount in the market. The system would be useful both to the banks as well as the purchasers of goods. The former's profits would not decrease because with the growth of acceptance business their lending capacity would increase and the latter would benefit by a rate of acceptance commission that would be lower than the rate of interest paid for cash credit. Finally the use of rupee bills instead of the sterling bills at present used in financing the import trade of the country would also give a great impetus to the rise of a bill market in India. These then are the various measures that can be

*The Reserve Bank of India is making efforts to encourage the formation of acceptance houses which would by creating bank acceptances help in the promotion of a bill market in India.

profitably adopted to develop and extend the use of bills in the country which is so necessary for an efficient functioning of our credit organisation.

THE PROBLEM OF HOARDING AND INVESTMENT.

Hoarding means the uneconomic habit of keeping gold or silver or even money away from its normal industrial or monetary use by means of accumulation. Unsympathetic writers on Indian Economics have often accused Indians of possessing this uneconomic habit of hoarding in a large measure. They have stigmatised India as an unfathomable sink of precious metals, and this impression has been very strong not only outside India but inside it also. The question of Indian hoards has also come before various committees and commissions appointed to investigate into currency, banking and financial problems of India and their verdicts in this respect have differed. Some of them as the External Capital Committee of 1924 and the Royal Commission on Indian Currency and Finance of 1926 have pronounced their judgment against India, whereas others as the Babington Smith Committee of 1920, and the Indian Central Banking Committee of 1930 have expressed a different view. The following remarks of the Central Banking Committee on the subject are significant "We see no justification for the widespread belief that India has absorbed and still absorbs an undue proportion of world's gold supply and that the accumulated treasure of centuries has been lying in hoards. In the days when life and property were not safe and when banking facilities were not available, hoarding was inevitable. Social and economic conditions also influenced the predilection of the people for the precious metals. Circumstances have, however, altered materially, during recent years and there is little evidence of hoarding of precious metals in these days apart from the use of ornaments." We are led, therefore, to conclude that the existence of Indian hoards has been grossly ex-

aggerated and the accusation loses much of its force when one is reminded of the facts that with one-fifth of the world's population India's pre-war annual consumption of world's output of gold was only 20 per cent., that part of the gold absorbed by India is used for industrial and domestic purposes, that it would be wrong to assume that gold and silver ornaments to their full value should be regarded as hoards as part of them serves merely the purpose of personal adornment and therefore represents nothing else but consumption of wealth, and last but not least that in an enormous, quantity exports of gold have taken place from India after September, 1931, when rupee was linked to sterling that went off the gold standard.

But to deny the exaggerated emphasis laid on Indian hoards by prejudiced writers is not to deny their existence altogether. Hoarding to some extent does exist and has existed in India, and there have been various causes responsible for this. The principal cause was the insecurity of life and property that resulted from outside invasions of the country in the middle ages, and the habit then contracted has continued up to the present to some extent. The absence of a sound currency has also been a contributory cause, and the lack of proper banking facilities in the country has only aggravated the evil. Thus the problem of fighting the hoarding habit and encouraging the habit of thrift by creating facilities for investment is a real problem that concerns the students of Indian banking to which we shall now give our attention.

To look at the problem basically, the amount of investment that a country can make depends upon its capacity to save, will to save and opportunity to save or make investment. To develop the investment habit among Indians and to draw out the existing hoards, however small or large they may be, it is necessary that a satisfactory solution of one or more of the above points is

arrived at. So far as the question of augmenting the country's capacity to save is concerned, all that need be pointed out at this juncture is that it depends on the development of our economic life in all its many-sided aspects. Our present position in this respect is anything but satisfactory. We are a poor people belonging, strange as it may seem, to a rich country. And so long as this anamoly remains unsolved, our capacity to save is bound to remain greatly limited as at present. Regarding the will to invest savings in productive enterprises rather than to keep them locked in gold and silver, we have only to say that Indians suffer from no inherent prejudice in this respect. Given necessary opportunities and sound education bringing home to the people the advantages of thrift and investment, Indians would prove to be as good investors as any other people in the world. The last point is about developing the existing facilities of investment and creating new ones. In this connection the following suggestions would be found useful. As already remarked, post offices can do a lot in extending, the investment facilities in more than one way.* The establishment of National Savings Associations throughout the country, the introduction of home savings safes by these associations as well as by joint-stock and co-operative banks, a substantial increase in the use of cheques, the introduction of gold savings certificates as recommended by the Hilton Young Commission to be sold for legal tender money, and redeemable at the end of 3 or 5 years in gold or legal tender money at the option of the holders, or redeemable earlier at a discount only in legal tender money. The introduction of 'stridhan' certificates for the use of women who should invest in them their 'stridhan' existing in form of ornaments and jewellery, grant of increased facilities by banks regarding purchase, sale, and safe-custody of securities and collection of interest thereon by lowering their charges

*See Section relating to Post Office Savings Bank.

for all these services, the esatablishment of investment banks to promote the sale of industrial securities by examining their soundness and under-writing them to create public confidence in such securities, an increase in the number of stock exchanges. Where sale and purchase of securities would be conducted, extension of provident fund facilities, and formation of investment trusts on the lines of those started in England and U.S.A. which act as intermediaries between the primary investors and the borrowing industries and give adequate information about the latter as well as spread out risks in various classes of investments far more effectively than the primary investors can do—these are the various other methods that would prove helpful in extending the existing facilities for investment in the country and encouraging further and further the habit of thrift in the people. To popularise the use of cheques also it is necessary that Post Offices should permit their use in depositing and withdrawing money in and from the Savings Banks Accounts, Government and local authorities should make and receive payments through them, in addition to English, important, Indian languages should be used in their connection, merchants and business men should also make greater use of them in the course of their business, and delay in cashing them should be minimised by banks. The adoption of all these measures and extension of banking facilities in the interior of the country would, thus, go a long way in sloving the investment problem in India.

PRESENT WAR AND INDIAN BANKING.

The first effects of the breaking out of the present world war on the banking system of our country were disturbing. The people began to withdraw their deposits from the banks induced by fears of what the war might bring, but soon the confidence was restored and the deposits began to return. There was no panic for some time but in May-June 1940 with the intensification of

hostilities and the fall of France, nerveousness among bank depositors was to some extent marked and the deposits registered a decline. The scheduled banks on the whole had no difficulty in meeting the withdrawals and the non-scheduled banks also as a whole withstood quite well the strain of these two months of May and June. The third occasion, when the banks were subjected to a certain amount of withdrawals was when Japan entered the war in the east, but as on the previous two occasions, this time also the disturbance was not permanent and with the gradual return of confidence deposits resumed their upward trend.

Leaving aside these periods of short-lived uneasiness, on the whole, however, the banking system of our country has demonstrated signs of great vitality and been generally strengthened by the war. The following features in the banking organisation of the country during the war period deserve special mention.

Firstly, the deposits of the banks have shown a continuous upward trend. The following comparative figures would make the point more clear. On 1st September, 1939 the demand liabilities of Scheduled Banks were about 134 crores of rupees which on 2nd Feb., 1945 stood at the high figure of about 612 crores. The corresponding figures for time liabilities have been 102 crores of rupees and 214 crores of rupees respectively. This shows that rise has been much greater in case of demand liabilities than of time liabilities. This can be accounted for by people's preference to keep their resources liquid in uncertain times of war. These conclusions are also confirmed by the following figures published in the monthly bulletin of the League of Nations. Taking July, 1939 as the base year (100) the sight deposits have reached the figure of 260 whereas total deposits of 194 only. The comparatively lower rise of time deposits explains the lower figure of total deposits. This rise in the banks'

deposits is the result of growing inflation in the country necessitated by exigencies of war finance and increased wire prices.

The second feature of our war-period banking has been the strengthening of cash position of the banks in the country. At the close of March, 1939 the percentage of the cash in hand of the scheduled banks and their balances with the Reserve Bank to their total demand and time liabilities amounted to 9.41 at the end of March, 1940. At the end of June, 1940 the percentage rose to 12.4 and of June, 1941 to 13.79 and on 26th June, 1942 the percentage was 20.70. It again came down to 12 in 1945.

Similarly the clearing house returns also have shown great increase. The figure for 1938-39 was Rs. 1,975 crores which in 1942-43 rose to 2,773 crores of rupees. This should be regarded as another welcome sign of the war on our banking.

Coming to the money conditions prevailing in the money market, we find that unlike the war of 1914-18, the present war has not produced tight money and a high bank rate. The Reserve Bank of India rate has all along continued unchanged at 3 per cent. The large amount of currency expansion in the country has been an important cause of easy money in the country.

Lastly we have to mention the expansion of banking that has taken place in the country as a result of the opening of a large number of banking concerns in the country as well as of the starting of new branches by the already existing banks. Some of the well-known banking concerns started during this period are those promoted by the Indian financiers. The Bharat Bank Ltd., the United Commercial Bank Ltd., the Hindustan Commercial Bank, the Jaipur Bank, the Standard Bank, the Bank of Jodhpur, the Bank of Bikaner, the Rajasthan Bank, and Hind Bank are some of the well-known floatations of the war

period that deserve special mention. There are at present nearly 2,300 bank branches in India.

INSTITUTE OF BANKERS FOR INDIA.

The dissemination of sound banking knowledge in the country is one of the essentials required for the future development of banking in India. It was with this objective in view that in April, 1928, an institution under the name of Institute of Bankers for India was established under the Indian Companies Act. The objects of the Institute have been described as under: (*i*) to support and protect the character, status, and interests of persons engaged in or connected with the business of banking generally and specially in India, and consider all questions affecting them; (*ii*) to encourage the study of the theory of banking and to institute examinations for that purpose; (*iii*) to spread information on banking and other kindred subjects by means of lectures, discussions, periodicals, books, correspondence with public bodies or individuals etc.; (*iv*) to collect and circulate statistics and other information relating to the subject of banking in India.* The Institute has started examinations in banking and conducts a journal also. Facilities for the study of banking are at present confined to the cities of Bombay and Calcutta only and need further expansion. On the whole, the progress of the Institute and extension of its work is bound to prove helpful for the banking growth in the country.

INDIAN MONEY MARKET—A CRITICISM.

In the foregoing pages we have surveyed the present position of the different constituents of the Indian money market and have suggested the improvements that should be made in them in future. We shall now attempt to make a critical estimate of the whole situation by way of summing up the existing state of our money market.

*See Jathar and Beri: Indian Economics, Chapter X.

The efficiency or otherwise of a money market of any country is to be determined by the twofold point of view of a co-ordinated and well-knit organisation on the one hand and adequacy of funds to meet the varied requirements of the country's economic life on the other. And it is from these points of view that we shall judge the Indian money market also.

Before the coming of the Reserve Bank of India in 1934, the Banking system in the land had no co-ordinating agency in the field of national currency and banking. The Reserve Bank of India has removed this great deficiency from which India suffered for long. The healthy effect of this development is already visible in a number of respects. For example, before the Reserve Bank was established, there existed great seasonal differences in interest rates in the country. The position has of recent years greatly improved in this respect. Still divergences in interest rates between different localities have not been eliminated yet. This shows that co-ordination between different banking institutions is not complete. That it is a fact, is supported in other ways also. The Reserve Bank has so far, as already noticed, not succeeded in solving the most fundamental problem in this connection, that is the problem of linking the indigenous system of banking to the modern one. The contact between the co-operative banks and the commercial banks as well as the Reserve Bank also leaves much to be desired at present. Hence we must admit that the Indian money market is even now not a fully co-ordinated system.

Then so far as the varied needs of our economic life for credit are concerned, they are also not fully and satisfactorily served. The defective system of rural credit, the faulty and deficient system of industrial finance, and the undeveloped credit to meet the requirements of the country artisan are a few glaring examples

in the matter. Thus there is much room for sound banking expansion in the country specially in certain special spheres. The undeveloped cheque habit is to an extent an index of our undeveloped banking.

Another feature of the Indian money market is its domination by the Government and the foreign banking concerns as in the financing of the country's foreign trade. National control over the country's banking system in the larger interests of the masses is an urgent necesssity and a comprehensive banking legislation is the need of the hour to direct and control the future expansion of banking in the country on sound and healthy lines.

These are then the chief features of the money market in India that cannot escape the attention of any student in the subject, and in order to have a well-developed money market on modern and scientific lines it is necessary that the aforesaid unsatisfactory features must be remedied.

CHAPTER XXVII.

PUBLIC FINANCE.

In a study of the economic conditions of a country, the importance of Public Finance cannot be over-stated. Public finance, concerned with the financial position of the Government, is a reflection of the country's general economic condition and it is in this light that we have to approach it. The problem has to be viewed from the standpoint of public revenue, public expenditure, and public debt not only of the Central Government but of Provincial and Local Governments also. Another equally important aspect of the question is regarding the financial relations between the centre and the Provinces which also deserves necessary attention. It is our purpose to make a study of India's public finance from all these points of view in the following pages.

Revenues of the Central Government:—The Revenues of the Central Government may be classified under the following two broad headings: (*i*) Tax Revenue and (*ii*) Non-Tax Revenue. Tax-revenue may be further *subdivided into direct taxes consisting of Income-tax,* and corporation tax, and indirect taxes consisting of customs, central excise duties, salt and other taxes. Non-tax revenue consists of revenues from Public monopolies like opium, commercial services like Railways, Irrigation, Posts and Telegraphs and certain Miscellaneous receipts from a number of sources as payments from Indian states, departmental receipts, and interest on loans given to local bodies, Provincial Governments, and Indian States.* We shall now discuss a bit in detail some of the more important items of the revenue of the Central Government

*See Table A at the end of the Chapter for the budget of the Central Government for 1942-43.

and their relative significance in the scheme of Indian Public Finances.

Customs:—A glance at Table A would show that revenue derived from this source forms the largest single item on the revenue side and accounts for more than one-fifths of the tctal revenue. The customs revenue comprises the two well-known duties on imports as well as exports. A *historical* review of this item leads us to the conclusion that it has undergone a progressive rise on the whole though in recent years beginning with 1930-31 of the Trade depression a reaction has set in.

Of the two items of import and export duties, the first one has been the more important. Before the war of 1914-18 there existed a general *ad valorem* duty of 5% on all imports, with certain exceptions, under the Indian Tariff Act of 1894. The coming of the war necessitated large funds, to meet which the general import duty was raised to 7½% in 1916-7; to 11% in 1921-2; and to 15% in 1922-3. There were also special duties, higher or lower than the general rate, on certain goods. Under the policy of discriminating protection adopted in 1923 and, afterwards, under the pressure of world-trade depression, import duties were increased in many cases to provide protection to the home industry in the first case and additional revenue in the second. But the results of these heavy increases were not altogether satisfactory and were reflected in the decline of the imports of manufactured consumption goods and the increase of the imports of capital goods and raw materials. The replacement of consumer's goods by imports of machinery and plants was not equally productive not merely because of reduced import values, but of lower duties also. In the period between 1937-38 to 1942-43, the yield from import duties has progressively fallen not merely in amount but in its proportion to the Central tax revenue from 47.8 per cent. in 1937-38 to 19.2 per cent. in the budget for 1943-44.

The effect of the present war on revenue from import duties has been great. The decline has been much more marked in case of protective duties than of revenue duties. In 1937-38 the revenue duties yielded an income of nearly 33 crores but in the budget of 1943-44 it has been estimated at about 29 crores only. However, we find that whereas in 1937-8 the protective duties yielded an income of about 9 crores, in 1943-44 the income from this source has been budgeted at the low figure of 55 lakhs only. The most important items to record decline are all varieties of cotton fabrics, both of British and non-British manufacture, artificial silk fabrics, silk-fabrics, and raw-silk.

Coming to the export duties now. Until 1860 export duty generally at the rate of 3% *ad volorem* was levied practically on all exports. Thereafter a consistent policy of abolition was pursued and in 1880 there existed an export duty on rice alone. In 1903 an export duty (a cess) on tea was also levied the proceeds of which are handed over to the Indian Tea Association. In 1935 the rate of the cess was increased from 8 annas per 100 lbs. to 12 annas per 100 lbs. in April, 1935. In 1916-17 export duties on tea and jute were levied, the former however, (different from the cess levied in 1903) was abolished in 1927-8. In 1919 export duty was imposed on raw hides and skins also but even this was subsequently removed. Thus export duties on jute and rice only continue. The rates of duty have of course undergone some changes since their first imposition. Under the Agricultural Produce Cess Act of 1940 an export cess at the rate of ½ per cent. *ad valorem* is levied on certain specified articles (such as bones, butter, wheat, seeds, skins, tobacco, raw wool etc.) which were not already subject to an export duty or cess with a view to help the Imperial Council of Agricultural Research financially. In the end we have to remember that the share of the export duties in the total yield from customs has never been very great and

in the period after 1937-38 its yield has further declined from Rs. 443.67 lakhs in 1937-38 to Rs. 257 lakhs in 1943-44 budget.

The above review of the import and export duties clearly brings us to the conclusion that customs receipts have shown a tendency to decline recently. In 1937-8 the revenue from this source was 43 crores but in the budget of 1943-44 it has been estimated at 30 crores only. This tendency towards a fall should be looked upon more or less as a permanent tendency. Because, as the country would proceed further and further in the scheme of industrialization and it should do so in future, and as our protective duties would become more and more effective, the yield from customs, must decline. Thus it would not be wrong to conclude that customs duties have suffered a permanent decline in importance.

Excise :—Another important source of central revenue is excise. It is a tax levied on home production just as customs duty is a tax on imports and exports. The fall in the customs revenue which the Central Government has suffered is to an extent made up by imposing excise duties. In its nature the tax like the customs duty is regressive as it falls on consumers.

The first excise duty to be levied by the Central Government was the much hated cotton excise duty which was levied in 1896 at 3½ per cent. *ad valorem* in order to please the British textile interests which resented the imposition of a customs duty on British piece-goods imports into India. The duty was suspended in November, 1925 and was finally abolished on 1st April, 1926.

The other import ant excise duty is that on sugar. It was first imposed in 1934 at the rate of 10 annas per cwt. on khandsari sugar and Re. 1-5-0 per cwt. on other than khandsari. In 1937 the duty was raised in the first case to Re. 1-5-0 per cwt, and to Rs. 2 per cwt in the second.

The duty on khandsari sugar was lowered to Re. 1 per cwt. To meet the requirements of war finance, the Finance Act of 1940 raised the sugar excise on other than khandsari sugar from Rs. 2 per cwt. to Rs. 3 per cwt. The imposition of the excise was very much opposed when it was first levied in 1934 as a handicap to home industry. The governments' viewpoint was that sugar industry was in the danger of suffering from over-production. Besides this, the levying of a 25% surcharge on all import duties by 1931 Act meant more than necessary protection to the industry which should be counteracted by excise duty.

The excise duty on match was also first levied in 1934* to make up loss of revenue, its special purpose being to help the province of Bengal which was given half the proceeds of the jute export duty and the corresponding loss to the Central Government was thus to be made up by the match excise duty. This raised great criticism from other provinces. In March 1941 the excise duty on matches was doubled to meet the heavy deficit in the Central Government's budget.

Besides the above two important sources of excise revenue, there are a few others also as kerosene, motor spirit and silver. A new excise duty of 10 per cent. *ad valorem* was levied on pneumatic tyres and tubes manufactured in India in 1941-42.

The yield from this source of revenue is dependent on the volume of internal production and the growth of domestic industries and the replacement of imports will make the excise duty an increasingly important item of central revenue in future.

Income-tax :—It also constitutes an important and growing source of revenue for the Central Government.

*Re. 1 per gross of boxes if the average number was 40 or less; Re. 1-8-0 if the average number was more thn 40 and less than 60; and Rs. 2 if the average number was more than 60.

It was in 1886 that for the first time an All-India Income-tax Act was passed under which all sources of non-agricultural income were taxed. The tax-system under the Act was not at all progressive and, therefore, the rich people paid much less than their due share of the tax burden. There were, however, certain increases in the tax during and after the last world-war which brought about an increased yield from this source. The depression that followed in the years 1922 and after, affected the income-tax yield adversely. There was a slight improvement thereafter as a result of the substantial increases in the rates of income and super-tax in the years 1930 and 1931. But the improvement was not commensurate with the increases in the tax including the surcharges, because of the world-wide economic depression that had its inevitable repercussions on Indian economy also. Separation of Burma meant a further loss.

An important event in the history of Income-tax in India was the passage of the Income-tax (Amendment) Act of 1939. It was the result of the recommendations of a Committee consisting of two British Experts and one of the Senior Income-tax Commissioners, that was appointed by the Government of India to conduct a comprehensive review of the Indian tax system and administration in India. An important feature of this Act was the adoption of the 'slab' system in place of the former 'step' system. Under the 'slab' system progressive rates are charged to successive slices of income whereas under the second system tax is charged at the same rate on the whole income. Slab system is thus more progressive. Improvements in certain other directions were also made. In 1939 the surcharges that were imposed in 1931 were abolished.

The present war has been responsible for some further changes in the Income-tax rates. An Excess Profits Tax was first levied in 1940 which has been increased

since then and at present stands at 96.4 per cent. The tax is to be levied on all abnormal war profits, above a taxable minimum of Rs. 30,000 earned since 1st September, 1939, on the basis of a standard year which might be, at the assessee's option, any financial year between 1935-6 and 1939-40. The business community has been opposed to this tax. The justification of the tax, however, is that it falls on those who benefit as a result of war production. Under the Supplementary Finance Act of November, 1940 a levy of 25 per cent. surcharge on all taxes on income including the corporation tax and the super-tax was made for Central purposes. The surcharge has been increased since then and in the budget of 1942-43 was raised to roughly 50%.

Under the Act of 1935, Income-tax has been converted into a divided head of revenue. It was in the year 1937-8 that the provinces got a share in the Income-tax for the first time. The share of the provinces in the Income-tax was placed at Rs. 739 lakhs for the current year and Rs. 837 lakhs in the following year by the Finance Member while presenting the budget for 1942-43.

Exemption of agricultural incomes from income-tax has been a bone of much contention. In the opinion of the authors, it is a necessary reform in the Income-tax system of the country which is over-due. The rate will have to be fixed by the Central Government and the machinery of collection and administration would also be central but yield could legitimately go to the provinces where it was collected. Under the 1935 Act the provinces have the power to impose a tax on agricultural incomes, Bihar, Sind and Assam have passed such Acts.

Another necessary improvement in the Income-tax system is regarding the granting of abatements of income-tax by way of family allowances.

The Income-tax revenue (including Corporation Tax and E.P.T.) has registered an appreciable increase specially after the war, rising from 14.58 crores of rupees in 1937-8 to 89.90 crores in the budget estimates of 1943-44*. After the war with the abolition of surcharges and E.P.T., some reduction on these accounts is bound to take place. But on the whole the importance of income-tax revenue would show any expansion or not would largely depend upon the economic conditions that prevail in the post-war era.

Corporation tax:—It is another item of direct tax which unlike income-tax exclusively belongs to the Federal or Central Government. Under the Act of 1935, taxes on the income and capital of companies, called corporation tax, have been detached from income-tax, which thus form a separate item on the revenue side of the Central Government. The yield from corporation tax has also registered a substantial increase, in 1937-8 it being 1.88 crores of rupees and in 1940-1 the budget estimate rising to 5.30 crores.†

Salt-tax:—Revenue derived from salt has been a source of government income in this country for centuries. The British government has inherited it from its predecessors. Before 1882 the rate of the duty varied from province to province, in which year it was made uniform for the whole of India at Rs. 2 per maund. Since then the rate has varied between Re. 1 and Rs. 2-8-0 per maund according to the requirements of the government. The present rate of duty is Re. 1-9-0 per maund with an additional import duty of one anna a maund. There are two different methods of levying the duty on salt produced in India. (*i*) The government either manufacture the salt or obtain a monopoly of the supply requiring private manufacturer to sell it only to the government. It is

*See Eastern Economist, July 9, 1943.

†Jathar and Beri, Vol. II.

then sold by the government on payment of the duty. (*ii*) Secondly, as in Madras the government levy an excise duty and allow the manufacturer to sell the salt to private traders or consumers. Government factories are in some cases leased to private individuals who manufacture and dispose of salt under a license from the government.*

Salt duty has been an object of much adverse criticism by the nationalist opinion in the country on the clear ground that it falls on the poor consumer. There should be no hesitation in suggesting that an article of such a common necessity should not be taxed and the aim of India's fiscal policy should be to abolish the existing salt-tax as early as possible. Even so long as it continues, the rate of the duty must be kept at its minimum. How much the nationalist opinion in the country has been resenting the salt-duty, should be clear from the fact that that great leader of Indian nation, Mahatma Gandhi, in 1930 selected salt-duty as the first item in his civil disobedience campaign.

Opium :—It is an item of Central revenue which has greatly diminished in importance during the last few decades. In 1907 the Government of India under pressure from the British government entered into an agreement with China under which sales of opium on government account for export to China were stopped since 1914. This was responsible for much loss of revenue and was resented in the country as a case of forced righteousness. Till the end of 1935, the revenue from opium was derived from the following sources: (*i*) The monopoly profits of the sale of opium manufactured in government factories and intended for export to foreign countries. (*ii*) Income from the export duty levied on the purchase of opium sent out from the Indian States of Rajputana and Central India. (*iii*) Profits of monopoly in the form of license

*Jathar and Beri. Vol. II. Chapter XI, § 13.

fees or vendor's fees derived from the internal consumption of opium in British India. The last item was shown under excise, and the first two under 'opium' proper. As under the instructions of the League of Nations, all exports of opium from India have ceased since the end of the year 1935, there is now no revenue from exports of provision opium. Hence, the receipts are now confined to opium sold for internal consumption in the country which is also strictly regulated. Still the consumption is quite large according to the standard laid down by the League of Nations. Attempt to check this consumption in the country is desirable.

Revenue from Commercial undertakings:— Railways, Posts and Telegraphs and Irrigation come under this category. Out of these three, Railway is the most important item. After 1924, the Railway budget has been separated from the General budget. However, on a fixed basis Railways make a contribution to the general revenues which is a first charge on their net receipts. During the years of economic depression, the railways suffered a loss and could not pay any contribution to the general revenues, and the accumulated arrears on this account amounted to 30.74 crores of rupees between 1931-2 to 1936-7. After the year 1936-7 the position of the railways began to improve and the coming of the war has helped this improvement a good deal. Thus it has been possible for the railways to resume their contribution to general revenues, though the heavy liability piled up during depression years remains mostly undischarged. This contribution to general revenues has been growing as a result of increased railway earnings because of increased rates and fares as well as increased war traffic, and also more recently due to the suspension of the railway convention enabling an *ad hoc* allocation of surpluses.*

*Eastern Economist: article on 'Changes in Central Revenue', 9th July, 1943.

Posts and Telegraphs are responsible for a further source of central revenue which has registered substantial increase in recent years, from about a crore in 1934-35 to about 5 crores in the budget estimates of 1942-43. Increases in rates are responsible for this a good deal. Here it must be pointed out that Posts and Telegraphs partake more of the nature of a public utility service than a profit-earning commercial concern. Hence to make an attempt to convert it into the latter is wrong. The Central Government has neglected this view-point in the administration of Posts and Telegraphs, is a charge that can be sincerely levied at their doors.

What is true of Posts and Telegraphs is also true about irrigation. The poverty of the Indian agriculturist prevents him from making proper use of water for irrigation if he is called upon to pay a high charge for the same. Hence, irrigation should not be looked upon as any important revenue-yielding head for the Central Government.

Other items:—Besides the items already discussed these are a few others also, like debt-services, currency and mint, civil administration and Defence services etc. of their revenue. Thus currency and unit represent the Central Government's share in the profits of the Reserve Bank and the profits of coinage, and Debt-services represent receipts of interests on loans granted by the Government. Recently a duty on tobacco has also been levied.

Revenues of the Provincial Government:— So far we confined our attention to the revenue items of the Central Government. We shall now examine the different sources from which the Provinces get their income.

Land Revenue:—This is a very important source of provincial revenue. We have already discussed the problem of land-revenue in India under a separate chap-

ter. The total revenue derived from this item in the year 1939-40 of all the Provinces put together amounted to Rs. 27.25 crores.

Excise:—The revenue under this head is derived from the manufacture and sale of intoxicating liquors, hemp, drugs, opium and so on. The greater part of the revenue is attributable to country liquors only. The revenue is realised in the form of a duty on manufacture and fees for sale licenses. The revenue from this source has shown a constant increase. It was 1.5 crores in 1861 and had risen to 13.1 crores (net) in 1937.* During recent years the world-depression and the introduction of prohibition in Congress Provinces affected the revenue from this source adversely. This rise in the excise revenue has alarmed the public opinion in the country a good deal as it was interpreted to mean an increased consumption of liquor. It must not be forgotten, as claimed by the Government side, that stricter control increased rates, and expansion of population have also had their share in the increased revenue. So far as checking the consumption of liquor is concerned some effort or other has been made in different provinces since the 1921 reforms. The methods followed in this regard have differed. Raising the price of liquor, reducing the number of shops, lowering the limits of possession, curtailing the hours of sale and reducing the strength of the drinks supplied have been some of the ways followed by the Government. With the coming of the Congress ministries in power under the new constitution, prohibition was also introduced in certain specified areas of the different provinces. But their resignation has interrupted the work and in some cases under the autocratic rule of the Governors the work of the Congress ministries has been undone. Reduction of drinking habit is undoubtedly very useful both from health as well as economic point of view of the public. It is also a fact that nothing would

*Federal Finance in India: P. J. Thomas, Table 5.

be possible unless an active and bold policy is adopted by the Government and initiative is taken by them in the matter. But the success of Governments' measures ultimately will depend not upon their severity but upon the extent to which those measures have actually been helpful in changing the people's mentality. Internal reform is what is actually required, though suppression of the evil by the Government is also bound to help it. But the program of suppression must be well-devised and practicable.

Stamps:—Revenue from stamps is of two kinds, judicial and commercial. The former is realised by the sale of judicial stamps by courts to be affixed on plaint and other court documents. The latter represents duties on commercial transactions recorded in writing, such as conveyances as to the transfer of property, lands, bills of exchange and so forth. In 1939-40 the total revenue from this source amounted to Rs. 10.14 crores.

Registration:—Revenue under this head is got by registration fees charged on the documents registered according to their value. In case of certain documents registration is compulsory. Documents relating to gifts and transactions in immovable property are examples of this kind. In other cases it is optional. The total revenue from this source is small, Rs. 1·8 crores was the figure for 1939-40.

Scheduled Taxes:—These are taxes which under the Reforms of 1921 the Provinces were empowered to impose. Under the new constitution, however, they are included in the Provincial Legislative List. The Provinces did not make much use of these taxes either because they were not very paying or for other reasons. But in some provinces as Bengal, Bombay, Madras, the United Provinces, Assam etc., betting and amusement taxes have been imposed. Their yield is, however, not very large.

Forests :—The forest revenue is derived from the sale of timber and other forest produce and by fees for grazing or cutting wood. The Forest Department is a commercial department and it can be a good source of revenue to the Provincial Governments which it is not at present, if better exploitation and utilization of forest resources are made possible. This would entail a large initial expenditure no doubt, but in the long run it would be found profitable. A proper co-ordination between forest research and commercial exploitation of forest produce is very necessary. The world-depression adversely affected the net revenue from the forests which fell from Rs. 2½ crores per year to Rs. 70.90 lakhs only in 1933-4. But during war it has again gone up.

So far we have reviewed only the old sources of revenue which the Provinces had before 1937. The inauguration of the Provincial autonomy under the new constitution, however, have given them a few new sources of revenue which we shall discuss in the following pages.

Share of customs :—The bad financial position of the province of Bengal forced the Central Government to give her a share in the jute export duty at 50% even before the advent of the new constitution from 1934-35. The other jute growing provinces like Bihar, Assam, and Orissa also benefited by this measure. Under the recommendation of Sir Otto Niemeyer the percentage of the share has been raised to 62½ from 50.

Share of Income-tax :—Under the new constitution the Provinces are entitled to a share in the General Income-tax collected by the centre as we have already referred while discussing Income-tax as the central head of revenue. Besides, the Provincial Governments have also the right to impose, under the new constitution, Agricultural Income-tax. Bihar and Assam have already imposed such taxes. It would be a welcome addition to the Provincial revenues.

Sales Tax :—It is a recent development in the tax systems of the countries of the world which has become very popular. It is a levy imposed upon commodities or services and confined to internal transactions only. Thus it is an indirect tax. The difference between an Excise and a Sales Tax is that the former is a tax to be paid by the manufacturer or producer on the issue of the excisable article from the place of manufacture or production, while the latter can be imposed at any stage between production to consumption, *i.e.*, on producers, wholesalers, and retailers. There are generally three kinds of Sales Tax (*i*) General Sales or Turnover Tax—It is applicable to sales by producers, whole-salers and retailers. (*ii*) Retail Sales Tax—It is to be paid by retailers only. (*iii*) Selective Sales Tax—It is a tax on selected commodities only.

Under the new constitution several provinces have resorted to this kind of tax. A general sales tax has been levied by the Madras Government since 1939, and by the Bengal Government since 1941. Different provinces have also imposed selective sales taxes on a number of commodities. They are motor spirit and lubricants, tobacco, electricity, cloth, silk yarn, silk and artificial silk, motor cars, motor cycles and radio or wireless sets.

Employment Tax :—Some of the provinces have levied taxes on employment, trade or calling. The Central Provinces was the first to take a step in this direction and since 1937-38 a tax at the rate of Rs. 28 per annum is levied on all the persons paying income-tax. A similar tax has been imposed in Bengal also since 1939. The U.P. Employment tax proposed in 1939 was responsible for a lot of controversy. The tax was restricted to salaried persons only with a few exceptions. It did not apply to professional persons and business men. The assessees are divided into a number of groups, and each group has to pay a flat rate of tax. Salaries below Rs. 2,500 per

annum are exempted. Subsequently the Government of India Act was modified so as to limit the payment on account of an Employment tax by any individual to a maximum of Rs. 50 per annum. The U.P. Employment Tax was adjusted to this maximum. The Bengal Government has also levied an employment tax at the ungraduated rate of Rs. 30 per annum on all trades, professions, callings, and employments, the tax being payable by those who pay income-tax.

Property Tax:—A tax on immovable property has been imposed in the two cities of Bombay and Ahmedabad since 1939 at a rate of 10 per cent. of the rental value. Properties yielding less than Rs. 2,000 per annum as rental in Bombay have to pay at the rate of 5 per cent. only. In the Punjab also a property tax has been introduced.

Miscellaneous Taxes:—Under this heading comes the tax levied in Bombay at the rate of 12½ per cent. on prize competitions. A tax on aerated waters imposed in N.-W.F.P. is another example. There also exists a cess at the rate of half an anna per maund on the sugar-cane consumed in factories in the U.P. and Bihar since 1938-39.

These new taxes have been imposed by the Provincial Governments in order to make up the loss resulting from certain old taxes that were drying up (*e.g.* excise) and to meet the growing demand for nation-building expenditure. The taxes, however, have met a lot of criticism either on the ground that they are regressive in nature as in case of Sales Taxes or that they involve double taxation as in case of Employment Taxes. The main argument in favour of Sales Tax has, however, been its productivity. It is also important to remember that the problem of furnishing the provinces with sufficient resources incommensurate with the heavy social responsibilities which have devolved upon them still remains unsolved. Taxation

of agricultural incomes, which so far exists in the two provinces of Assam and Bihar only, would certainly be of help in this connection and other provinces also should resort to it.

Public Expenditure in India :—Having considered the sources of revenue both of the Central and the Provincial Governments, it remains for us to examine the problem of public expenditure in India. In the very beginning we must emphasise the fact that it is the character and amount of public expenditure which in fact makes the fiscal system of a country good or bad. Mere revenue side can throw no light. Hence examination of public expenditure is highly important.

Growth of Public Expenditure :—The first point that strikes in this connection is the growth in the amount of public expenditure in India. The total expenditure of the Central and Provincial Governments in 1858-59 was about 50 crores only. It rose to 124 crores in 1913-14. The exigencies of the war of 1914-18 resulted in further mounting up and in 1921-22 the figure was about 222 crores. There was a decline in 1922-23 after which it again rose and reached the figure of about 230 crores in 1930-31. The years of Trade Depression showed some decline but the present war has again given a great fillip. The Budget estimate of the expenditure of the Central Government only for the year 1942-43 was put at the figure of about Rs. 226 crores to which about 90 crores must be added on account of total provincial expenditure to give a complete picture of the country's public expenditures as a whole. In this connection it is significant to note that the rise in the provincial expenditure since the separation of provincial finance after the 1921 reforms has not been very considerable. In 1921 it was 79 crores whereas in 1940-41 the figure for total expenditure stood at 91 crores or about, by no means the highest figure in the period

after 1921. Thus the great rise in the public expenditure in India is attributable to the expenses of the Central Government generally, which is not responsible for nation building departments and social welfare as the provinces are.

Heavy Defence expenditure :—The fact that provincial expenditure has been non-expensive in comparison to the Central expenditure hides the real sting so far as the criticism of public expenditure in India goes. We have spent increasingly large amounts on defence and civil administration of the country not because the real interests of the masses so demanded but because the exigencies of the Imperialist interests compelled us to do so. The military expenditure in 1913-14 was near about Rs. 31 crores, and it rose to 67 crores in 1920-1. Thereafter it was reduced and it was stabilized at about Rs. 55 crores (net) in 1928-29 for four years. It was further reduced later on and dropped down to about 45 crores in 1938-9 which was the result of a number of factors as fall in prices, revision of pay to British soldiers, postponement of equipment programme etc. But the present war has sent up the military expenditure again to extraordinary heights, the estimate for the year 1942-3 being about Rs. 133 crores (net). There is no gain-saying the fact that a poor country like India cannot afford to spend such a huge amount on defence, which needs to be reduced. Indianization of the army at a greater speed than at present, reduction of the size of the army, and the introduction of a short military service under the voluntary system are some of the ways that have been suggested to achieve the above object.

Expenditure on Civil administration :—Another standing complaint in regard to public expenditure in India has been its top-heavy civil administration. It is a fact too well known to mention that the Government officials in India are paid such high salaries and allowances

as neither have any parallel in any other country of the world nor the poverty of the country can in any case justify them. Great economy in this respect is urgently demanded. The Congress ministries certainly placed a noble example before the country in this connection by imposing a self-denying ordinance upon themselves and accepting only Rs. 500 per month as their salary. Greater Indianization of services, a higher sense of public welfare and service in the administration, and a greater regard for the proper use of public funds only can improve the situation in this matter.

Expenditure on Social Services:—Whereas we have spent unproportionately large amounts on what have been called security services, the public expenditure in our country on social services like education, medical relief, public health, agriculture, veterinary departments, co-operation and industries has been much less than proportionate. It would not be wrong to say that these nation-building departments have practically starved, though after introduction of the Provincial autonomy since 1937, all the provinces except Bombay and C.P. devoted increasing attention to them. The main difficulty in the way of increased expenditure on social services has been the limited resources of the Provinces upon which falls this highly important duty of running and improving the nation-building services. Thus any improvement in this direction would call for increased resources which will have to be found out. Further, the Central Government also would have to pay much greater attention in this respect than it has hitherto done and would have to help the provinces by advice and money both. A basic change in the outlook of the Government towards the public-weal is the first necessity without which nothing is possible.

Burden of Taxation and its incidence:—We have made a brief examination of the revenue and ex-

penditure items of the Central and Provincial Governments of the country. We have seen how our public expenditure is not incurred in the best interests of the country and needs several improvements. A corresponding question on the revenue side is whether the burden of taxation on the people and its incidence as amongst different classes need any reform or not. So far as the burden of taxation goes, according to Sir Purshottamdas Thakurdas it was more than double in 1922 of what it was in the period before war, the figure for 1913 being Rs. 2-14-5 per head and Rs. 6-1-8 per head for 1922.* Though the percentage of taxation to the income per head in India is low (8 per cent) in comparison to other countries (20 per cent or more), but this is no indication of light taxation as the per capita income is also very low and hence the percentage that people can afford to pay as tax is also equally negligible. Regading the distuibution of the burden as between different classes, though we have no very reliable information, yet two facts of somewhat general nature are undisputable. The share that the masses have to bear in the total amount of taxation is more than they can reasonably afford to do as items like salt tax, excise duties, stamps, and land revenue show and it is on them that the brunt of the burden falls. Secondly, in recent years though the burden of the masses is not lightened, yet there has come about an improvement in so far as the burden that the richer classes should share is concerned. More progressive income and super-tax, levy of special import duties on luxury goods etc. are a few instances in the point. Even in March 1938 Sir James Grigg, then Finance Member, admitted that taxation in this country lets off the rich too lightly and presses the poor too heavily. As to the possibility of future expansion of taxation in the country, no definite answer can be given. The first necessity is of instituting a comprehensive enquiry into the incidence of existiug taxation. Secondly, we have

*Quoted in Jathar and Beri, Vol. II. Chapter XI, §25.

also to remember that an answer to this question would largely depend upon the purpose for which the money is sought to be raised by taxation. It is not a point of debate that India's productive capacity has to be improved which is not possible without increased initial expenditure in which the share of the State would also be there. Besides, expenditure on such items as education, public health etc. will also have to be increased. Taxation or borrowing are the only two sources, and naturally the first must also have its share. The only point that has to be kept in view is that the purpose for raising the money must justify it and the money raised must fall on the people equitably.

Public Debt in India:—In any review of a country's Public Finance, the discussion of its public debt cannot be omitted. Every Government has to raise loans for long periods or short periods, within the country or without the country and for this purpose or that purpose. And thus there arises the problem of the National or the public debt. India is no exception to the rule and the problem of her public debt has of late been in front in the discussions of her manifold economic and political questions. We shall also briefly examine the issue in the following lines.

General Features:—Let us, to start with, mention some of the general features of India's public debt. Strictly speaking, it should also include the debts of the Provincial Governments which totals to a few crores of rupees. First, however, we shall confine our attention to the debt of the Government of India only, which is the more important side of the problem.

The Indian public debt consists both of the rupee debt and the sterling debt, the former being raised in India and the latter in London. But it should not be concluded from this that all the rupee debt is held by

Indian nationals and the sterling debt by the foreigners; even the reverse is also true. Till very recently the sterling debt comprised as large an amount or even more as the rupee debt. But owing to the war time operations of the Government of India concerning the repatriation of the sterling debt, the amount of this debt has been totally wiped off. In 1938-39 the figure concerning the total obligations of the Government of India in England was about 470 crores in round figures, but now India is free of foreign debt. The wiping off of the sterling debt is a welcome feature, because external debt, particularly in case of a country like India which is also politically subject to the domination of the creditor nation, creates all kinds of difficulties of political as well as economic nature and helps to perpetuate and enhance the vested interests. Side by side with this wiping off our sterling debt, the rupee debt has undergone a striking increase in the last four years of war. This is due to war expenditure of the Government including the capital expenditure on Defence. In 1938-39 the total obligations of the Government of India in India were about 736 crores which amount in 1942-43 was estimated at 1,312 crores. The great increase in the amount is obvious.

From the view-point of time, the public debt of India may be broadly classified under two heads, the permanent debt and the temporary debt. The Permanent debt has a comparatively long lease of life and consists of different loans with particular conditions attached to each. Temporary debt consists of borrowings through the issue of treasury bills or ways and means or advances from the Reserve Bank. The importance of Treasury Bills in the temporary borrowings of the Government of India is great. These were first introduced in 1917. These bills are repayable after two to twelve months although three months Treasury Bills are most common and popular. In the four years of the present war, the proportion of

treasury bills to the total obligations has greatly increased from 6.5 per cent. in 1939 to 21.9 per cent. in 1942-43. This reliance on treasury bills for war finance is not very healthy. The danger lies in the fact that all the short-dated and even medium dated loans will fall due for repayment within three or four years of war coming to an end. This would mean a great strain, and the only way to lighten the strain is of funding the debt from now. In the post-war period when money would be required for economic rehabilitation and expansion, it would be wrong for the Government to enter the market and raise money for paying off its debt. This would be making money dear at a time when money conditions must be kept by all means easy.

Another point about the character of India's public debt is that most of it is covered by interest-bearing assets. The greater portion of the amount has been employed in the construction and acquisition of Indian railways and in irrigation works and Posts and Telegraphs. Of course the present war has added to the amount of the unproductive debt already existing a good deal. But about this aspect of the Indian public debt more will be known when we discuss its origin and growth.

Origin and growth of public debt in India:— The history of the Indian public debt goes back to over a century. When the Government of India was transferred direct to the Crown, the debt of the East India Company became the public debt of India. Most of this debt was the result of a number of imperialistic wars that the Company fought not in the interests of India but in the direct subversion of her interests. Hence India's public debt started not with a national but a definitely anti-national and imperialistic character. This debt was composed of not only rupee debt but also sterling debt. The sterling debt of the Government of India dates back to the year 1833, when, under the Act of that year, the commercial

department of the Company was completely liquidated, and the sterling obligations of the Company which consisted of the capital stock of the Company and the Company's 'bond debt" were transferred to the Government of India. The amount on the first account was £12 millions but the corresponding assets in 1874 proved insufficient to meet these liabilities for the stock and the Government of India was permanently burdened with a net amount of about £4½ millions only. The second amount concerning the "bond debt" was about £3½ millions. These liabilities of 1833 were thus the original basis of the sterling debt of the Government. The first public loan was floated in the London Money Market in 1859 in order to meet the financial burden caused by Mutiny. And thus the loan began to mount up afterwards. The main cause of the sterling loan has been the necessity of the English capital accumulated as a result of England's unchallenged supremacy in trade and industry in the 17th century to find an outlet, and the Government of India's readiness as a subordinate department of His Majesty's Government to give all necessary facilities for such an outlet without looking to country's real interests.

The transference of Government direct to the Crown made little difference and India continued to be the field of a number of expensive and aggressive wars in the interests of foreign imperialism. The Afghan, Sind, and Gwalior wars, the two Sikh Wars and the second Burmese War are some of the examples. The Sepoy Mutiny added about £46 millions to the public debt of India. In 1862 the public debt was over Rs. 96 crores almost the whole of which was due to unproductive wars. But thereafter there came about some change in the policy of aggression within the Indian borders. And the major portion of the public debt owed its origin to productive public works. Since 1880-81 on the recommendation of the Select Committee of 1878-79 a special procedure came to be adopted

to reduce the unproductive debt of the country. The underlying principles of this procedure was that all expenditure for the construction of productive public works was to be treated as borrowed money, whether the amount was actually borrowed or spent out of revenue surplus. Thus if it was met from the revenue surplus, the ordinary debt (unproductive debt) was reduced in the accounts by a corresponding amount and the Public Works Debt increased to the same extent, as if the surplus was used in paying off the unproductive debt and fresh debt was incurred for productive purposes. By the time India entered the world war 1914-18, her unproductive debt was reduced to about Rs. 3 crores in this way. But the war added a further amount of unproductive debt. India made a war contribution of £100 millions and was faced with successive budgetary deficits (about 100 crores in 6 years). About Rs. 13 crores were spent on the construction of New Delhi. The result was that the unproductive debt of India increased from Rs. 3 crores to Rs. 258 crores in 1924, the first year of budgetary surplus since the war. But leaving aside the period of the war when productive works received a set-back, during all this period the productive debt has shown a constant increase. The present war has again added a huge amount to the unproductive debt of the country. The total interest bearing obligations of the Government of India on 31st March, 1943, amounted to Rs. 1,265.86 crores, out of which sterling obligations accounted for Rs. 57.41 crores only.* Before we close this brief survey about the origin and growth of India's public debt, we must make reference to one more point. And it is that it was only during the last war that Government realised the importance and strength of the Indian money market and it began to raise more and more loans in India rather than in England as was its policy before the last war. The policy of raising large

*Report on Currency and Finance 1942-43.

amounts of loans outside India was not in the country's interest economically also, because sterling loans have been relatively costlier than the rupee loans.

Debt redemption :—Another problem connected with the public debt of a country is that of its redemption or paying off. At the very outset it must be remarked that the problem is not very serious in India, as most of the debt being of productive nature is represented by the capital of commercial undertakings. So long as proper depreciation is allowed for, further arrangement for the recoupment of capital is unnecessary. Coming to the unproductive debt, we find that it was only recently that any comprehensive scheme for debt redemption was adopted by the Government. Before this attempts at debt reduction were made, but they did not form part and parcel of any well-thought out scheme. The utilization of budgetary surpluses since 1880-81 to reduce the ordinary (unproductive) debt, and arrangement to liquidate liabilities incurred in connection with the purchase of certain railways by the issue of annuities in payment of both capital and interest, and the institution of a sinking fund in 1917 in connection with the war-loan of that year are some examples of these unsystematic attempts at debt redemption made by the Government. It was in 1924 that Sir Basil Blackett, the then Finance member, initiated a scheme. Under this scheme, for a period of five years in the first instance, the Government proposed to set aside Rs. 4 crores annually and in addition 1/80th of the excess of the debt outstanding at the end of each year over that outstanding on 31st March, 1923. The amount so proposed was not to operate towards actual payment of old debts but was to be spent on new capital expenditure thus avoiding the need for contracting further debts for the above purpose whereas reducing the unproductive debt to the same extent by a book entry. The provision, therefore, is better described as a contribution out of revenues

for the reduction or avoidance of debt than as a sinking fund. Since 1933-4 the annual amount has been reduced to a lump sum of Rs. 3 crores only because Railways were not making any contribution to General Revenues due to deficits in their working and 60 per cent. of the Government debt is attributable to railways. Though the railways have begun to contribute to General Revenues, but the provision for debt redemption continues to remain at 3 crores only. As pointed out earlier, in view of the huge war loans contracted during the war period, the need for a satisfactory and substantial provision of debt redemption is urgent. The Government must move in the matter, therefore.

Repatriation of Sterling Debt :—We have seen that the public debt of India comprised a large amount of sterling debt also. This was not desirable position both politically as well as economically. It meant a great strain upon the ultimate cash reserves of our country because of interest payments, and was specially felt when our foreign trade declined. The Government of India has, therefore, started a welcome process of repatriating (paying off) our sterling debt and during the present war, when the sterling resources in large amounts became available to the Government, the process was accelerated. The result of this has been that to-day we have paid off all our sterling obligations. How all this came about, needs a bit clarification?

First, as to our sterling resources. They were the result of our favourable trade balance especially caused by the present war, large sterling receipts from His Majesty's Government for their share of war expenditure incurred by India as well as for large purchases for war paid for in the first instance by the Government of India, contribution towards the expenditure on defence modernization made according to the recommendation of the Chatfield

Committee, and lastly sterling receipts on account of sales of silver in London on behalf of the Government of India.

Coming to the history and process of this repatriation now. The beginning in this connection was first made in 1937, but it was temporarily discontinued for want of sterling resources. With the accumulating sterling resources, the scheme was re-opened. The Reserve Bank purchased India sterling non-terminable securities in the open market and transferred them to the Government for cancellation. In their place non-terminable rupee loans were created up to the same nominal value which were issued gradually by the Reserve Bank in accordance with the requirements of the market. On 22nd February, 1940 a scheme for the repatriation of the terminable loans was announced by the Government. The scheme consisted of converting six specified sterling loans into six specified rupee loans. On February 8, 1941 this scheme was replaced by a more comprehensive scheme of compulsory repatriation, with facilities to holders to whom the compulsory scheme did not apply to surrender stock at their option on the same terms. The scheme related to terminable sterling debt. It was to non-residents living outside U.K. or British India that the compulsion did not apply, otherwise under the order of the British Governments the residents in U.K. and of Government of India the residents in India had to compulsorily surrender their holdings of sterling loans. So far as Indian investors were concerned direct payment to them almost entirely in the form of rupee counterparts was made. For the rest necessary amount of sterling was acquired from the Reserve Bank for which the rupee finance was arranged either by the initially taking over of the rupee counterparts by the Bank or out of Government balances or issue of *ad hoc* treasury bills or ways and means advances from the Bank. To enable the Bank to hold the additional rupee securities thus created, the maximum limit on them

for their holding in the issue department was removed. On 24th December, 1941 a second compulsory scheme regarding non-terminable part of the debt was announced. The distinguishing feature of this scheme was that all payment was made in cash and none in rupee counterparts as they were not expected to be attractive to the market. As a result of all these repatriation schemes out of a total debt of £356.05 million or £276 million exclusive of railway stocks, debentures and annuities outstanding at the end of 1936-37, £188.26 million had been retired up to the end of March, 1942. During the year 1943-44 the total amount was repatriated. As pointed out at the very start, this has not only strengthened our external financial position, but Indian market for gilt-edged securities is broadened by conversion of repatriated sterling debt into rupee debt and the needs of our investors are to that extent fulfilled. Now India has more than 1,250 crores of rupees worth of Sterling assets accumulated in Britain.

Provincial Debt :—Before 1919 the Provinces had no independent power of borrowing which power the reforms of 1919 bestowed on them under certain limitations. Naturally provinces borrowed funds which were mostly spent for productive public works, specially those of irrigation. The provinces preferred to borrow from the Central Government rather than in the open market. With the coming of the provincial autonomy, the provinces became free to borrow in the open market. The debt due to the Central Government is being reduced and the tendency to raise open market loans is on the increase. By the end of 1939-40 the total provincial debt was estimated to amount to 150 crores of rupees, most of its being productive.

Criticism of the Public Debt Policy in India :— In the foregoing pages we have made a brief review of the Indian public debt. The first point of criticism that

would suggest itself to an impartial observer is that much of it has not been incurred in the real interests of the Indian people but rather in the direct subversion of those interests. Hence there has been voiced in certain quarters the demand for repudiation of a portion of Indian debt or for reparation from the British Government for a share of it. The demand has its justification, cannot be denied. Loans incurred to carry on aggressive wars inside and outside India or to meet budget deficits of which unpardonable military expenditure was an important cause, are facts that cannot be easily swallowed. Only a politically slave India could accept and pay off the burden. The next item of criticism is that in the interest of the country's economic and non-economic rehabilitation programme a bolder public debt policy must be adopted in future. In the post-war period the need for such a policy would be great. In this connection the part that the provinces would be called upon to play would be more important. And their satisfactory debt position gives greater hope for them. Programmes of educational reconstruction and public health as well as economic development are fit subjects to be financed out of public borrowings by the Government.

Financial Relations between the Central and Provincial Governments:—An important aspect of the problem of our public finance concerns the financial relations between the centre and the provinces. We have to view them a little historically, appreciate the present position, and suggest any possible improvements for the future.

Financial relations before the Reforms of 1919:—Beginning from 1833 up to the financial reforms of Lord Mayo in 1871, financial powers were centralised in the hands of the Central Government which interfered in the smallest details even. Soon the inefficacy of this extreme centralisation was realised. The provinces

had no incentive to economy or help in increasing the public revenue and the Central Finance suffered from uncertainty. All the revenues were paid to the account of the Government of India and the provinces got fixed contributions to meet their expenses. The most vocal were the greatest gainers. Lord Mayo was the first to introduce a change under his scheme of "Provincial Settlements" begun in the year 1871-72. Under the scheme certain departments as Jails, Registration, Police, Education, Medical, Printing, Roads, Miscellaneous, Public Improvements, and Civil buildings, which showed a tendency towards growing expenditure, were transferred to the Provinces. To meet the expenditure of these departments, Provinces got departmental receipts, and fixed lump-sum grants. Any deficiency was to be made by local taxation, (with G.G's sanction) retrenchment or redistribution. Any savings made at the end of the year were not to lapse to the Imperial revenues but remain at the disposal of the provinces. The working of the scheme, however, revealed a number of defects. As provinces had freedom to levy fresh taxation, incentive to economy was jeopardized. Local Governments also took little interest in the collection of revenues and considerable leakage took place in such important heads of revenue as excise, stamps, or customs. Their resources proved inadequate. Distribution of funds amongst provinces was also not based on any equitable basis of the needs of the provinces but was based on actual expenditure. The Central Finance, however, did get some relief. This made improvement necessary. The settlements made in 1877 with the Governments of Oudh, North-western Provinces, Bengal, the Punjab and the Central Provinces were the result. For the first time the system of making a separate contract with each province was adopted because in detail the arrangement with each province was different. The underlying general principles were first that all the re-

maining provincial services were made over to the provincial Governments along with their connected receipts. Formerly, the income of the local governments was derived from a grant or assignment, which though not absolutely fixed, was incapable of appreciable expansion. The new services transferred in 1877 were those of land revenue, excise, stamps, law and justice, general administration, stationery and printing. For their administration no lump-sum grant was made but a share given in sum specified heads of revenue, which suffered from evasion so far in the absence of local government's diligence. The principal heads of revenue thus shared were: excise, stamps, law and justice, and some other items varying from province to province. The license tax and some railways were also made over. The arrangement was that the revenue from these sources was to be taken by the provincial governments; but if they showed any surplus over the estimated figure from these heads in each of the provinces, the Imperial Government should be given one-half while in case of deficit also the same authority should share in the above proportion. Burma and Assam entered into a financial settlement not in 1877 but in 1879. Under the settlement in addition to wholly provincial revenues, Burma got a share in land revenue, income from forests and export duty on rice and salt while Assam in land revenue only. This was the principle of divided revenue that was applied to other provinces by Lord Ripon in 1882. Madras refused any change and continued under 1871 settlement. For reforms of 1877 Lord Lytton was responsible.

Next step in the evolution of financial decentralisation in the country was taken by Lord Ripon with the help of his Finance Member, Major Baring, in 1882. Provincial settlements were now made liable to revision every five years. Fixed lump-sum grants, the cornerstone of Lord Mayo's scheme, were altogether abolished.

Now, certain heads of revenue were made wholly provincial—Civil Departments, Provincial Works, and Provincial Rates. Others were wholly imperial—opium, salt, customs, commercial undertakings etc. A few others were divided between the Provinces and the Centre for the most part in equal proportions—Forests, Registration, Excise, Stamps, Assessed taxes, etc. If this division left deficit for the provinces, it was made good by giving them a certain percentage of land revenue. Along with this division of incomes there was also a division of expenditure which generally speaking followed the incidence of the corresponding heads of receipts. Settlements on these line were made in 1887, 1892 and 1897. In 1904 Lord Curzon made the settlements semi-permanent liable to revision if there was any substantial change in the original conditions or in the event of emergencies like war or famine. This was an improvement over the previous situation as it ensured greater continuity in policy and resources to provinces and the impending danger of provincial surpluses being resumed by the Central Government at the time of each revision, as was the case so far, became less. With some minor changes, the heads of revenue which were wholly imperial, wholly provincial, or divided remained the same. There was also a division of expenditure with this division of income, the former generally followed the latter though not in all cases. But as the expenditure of the Provincial Governments generally somewhat exceeded the assigned revenues the difference was made up by three methods: a fixed cash assignment, as formerly, under the land-revenue head; initial lump-sum grants granted principally with the object of enabling the provinces to undertake works of public utility; special grants made for police reform, agriculture and education. In regard to famine expenditure also a change came about. Till 1907 the liability for famine relief was principally of the provinces;

now the Government of India year by year set apart specific amounts for the purpose. If this amount proved insufficient, then the excess expenditure was divided between the central and the provincial governments, and in the last resort the Government of India promised further help from Imperial revenues. An important feature of the decentralisation of finance as it obtained between 1904 and 1912 was a spectacle of conflict between the old principle of observing the convenience of the Imperial Government and the new ideal of encouraging the development of provincial services. The public opinion supported the cause of the latter.

The Decentralisation Commission of 1909 examined the financial relations between the central and the provincial governments but suggested no radical change. In 1912, Lord Hardinge made the settlements permanent. There came about no change in the principle concerning the allocation of revenues except that they reduced the fixed cash assignments and gave the provinces larger shares in the growing sources of revenue. These settlements continued till the Reforms of 1919. On the revenue side the central government got revenues from such Imperial Heads of Revenue as Opium, Customs, Salt, Mint and Exchange, Posts and Telegraphs, Railways, Military receipts, and tributes from Indian States, and from the following Divided Heads—Land Revenue, Income-tax, Excise (except in Bombay and Bengal), Irrigation and Stamps. Division between the centre and the provinces was in a stated proportion, generally equal, but determined separately for each province. In addition to their share in the Divided Heads, the provinces got the wholly provincial revenues from Forest (since 1912, previously being a divided head), Excise (in Bombay and Bengal since the period of permanent settlements, previously being a divided head in all provinces), Registration and the Departmental receipts from such Provincial Departments as

Education, Law and Justice. On the expenditure side also a somewhat similar arrangement prevailed.

This system of financial decentralization as existing in the pre-reform period suffered from a number of defects: (*i*) Divided Heads of revenue were a source of constant interference on the part of the Central Government and checked provincial development. (*ii*) The practice of fixed assignments which were a direct consequence of divided heads made the system inelastic. The remedy was to abandon the principle of divided heads and give to the provinces in their place growing heads of revenue to meet the needs of provincial expenditure. (*iii*) The spasmodic grant of lump-sums was productive of unnecessary interference by the centre. (*iv*) The various settlements showed great inequalities *inter se.* (*v*) Power of taxation and borrowing was not possessed by provinces. (*vi*) The Central Government exercised much financial control over provincial budgets and expenditure. For example provinces could not budget for deficits nor spend their balances freely.

Financial Relations under the Reforms of 1919:—The system of decentralization which Lord Mayo began in 1871 reached its final stage under these reforms. There came about a definite change in the view-point governing the financial relations between the centre and the provinces which was in keeping with the new provincial autonomy, however limited it might have been, which the new constitution granted to the provinces. According to this changed stand-point, leaving aside the resources which were necessary to meet the expenditure of the Central Government, all the rest of the revenues were to be provincialised so that the provinces may discharge their growing responsibilities in the field of nation-building departments fully. Provinces were thus to be made financially independent of the Central Government. Accordingly

'divided heads' were abolished and the new allocation of revenue and expenditure was as follows: (1) Imperial Heads of Revenue:—Opium, Salt, Customs, Income-tax, Railways, Posts and Telegraphs, Military receipts. (2) Provincial Heads of Revenue:—Land Revenue (including irrigation), Stamps (Judicial and Commercial), Registration, Excise and Forests. Provinces were also given a small share of the income-tax revenue, equal to three pies in the tax collection on every additional rupee of the income assessed over and above the amount of income assessed in the datum year 1920-21. This concession regarding income-tax was made to silence the protests of the industrial provinces of Bombay and Bengal. This division of revenues between the Central Government and the provinces was estimated to cause a deficit in the central budget which was to be made up by contributions from the provinces. To decide upon the amount of contributions to be paid by different provinces as well as other allied questions a committee under the chairmanship of Lord Meston was appointed in 1920 whose recommendations are known as the Meston Award. These recommendations with certain modifications were ultimately adopted. The provinces, all without any exception, disliked and opposed the contributions that they had to make towards meeting the central deficit and demanded their abolition. The improvement in the central finances made some relief possible in 1925-26 and again in 1926-27. In 1927-28 the entire amount was remitted and in 1928-29 was finally relinquished.

Two other features of the financial relations of this period were, first that the province got an independent power of taxation within a scheduled list though the Central Government had the right to veto the proposal. The provinces could tax outside the scheduled list but with the previous sanction of the Government of India. Secondly, the provinces were also given independent power of borrow-

ing subject to certain conditions.* Lastly as a result of the above mentioned separation of revenues a complete separation of the central and provincial budgets came in, the provinces preparing their separate budgets henceforward.

Criticism of the financial arrangement under the Montford Reforms:—The financial arrangements as envisaged by or under the 1919 Act did not meet everybody's satisfaction. They were subjected to much criticism. The central theme of criticism that had much justification behind it was that provinces; as all their sources of revenue were inelastic, *e.g.*, land revenue, excise, forest (which required initial outlay in large amounts before it could yield increased revenue), did not possess the necessary funds to meet the responsibilities that were put on their shoulder by transferring to them such nation-building departments as Education, Public Health, Agriculture, etc. Stamps were the only source of revenue that held out any hope of increase in future. As against this, the central government possessed such expanding sources of revenue as income-tax and customs though their needs were stationary. Provincial inequalities was another point of criticism. It was said that increasing revenue which was the result of reforms, however, was not proportionately distributed between all provinces and the agricultural provinces gained more and the industrial provinces suffered more. The Simon Commission also gave its support to these points of criticism. The only possible remedy to meet the criticism levelled against the financial arrangements made under the 1919 Act was to give greater sources of expanding revenue as income-tax to provinces and apply the axe of economy to central expenditure like military and civil administration vigorously as well as to improve the revenues from commercial

*The loans could be used to meet capital expenditure on the construction of works of a material character and lasting public utility. Previous sanction of the G. G. was required before provinces could borrow in the open market.

undertakings like Railways and Posts and Telegraphs to as great an extent as possible. This, however, was not done and the problem of public finance in India remained unsolved.

Financial Relations under the New Act:—On the eve of the constitutional reforms of 1935 the whole question of financial relations between the centre and the provinces by several committees, such as the Peel Committee in 1931 and the Percy Committee in 1932 and the Joint Select Committee in 1933-4, the last dealing with the question very thoroughly. It was as a result of all these enquires and investigations that the provisions as made in the Act of 1935 were finally decided upon. According to these provisions there has been made a rigid distribution of revenues between the centre and the provinces. The Provincial revenues now consist of the following:

(*i*) Provincial Taxes like land revenue, tax on agricultural incomes, irrigation receipts, excises on alcoholic liquors, drugs and narcotics, stamps (general), forests, registration receipts etc.

(*ii*) The Provincial share in income-tax (and if an Act of the Federal Legislature provides) salt duties, central excises, and export duties;

(*iii*) The proceeds of stamps (commercial), terminal taxes, succession duties except on agricultural land and other taxes, collected by centre but distributed in full to the provinces; and

(*iv*) Subventions from central revenues and grants for specific purposes.

Of the above sources of revenue item No. (*i*) is exclusively provincial whereas the items No. (*ii*) and (*iii*) are exclusively federal in matter of legislation and administration.

The resources of the Central (Federal) Government are nearly the same as before, except that some of the

sources previously central (income-tax, salt, excise and export duties) have been or in future may be divided between the centre and the provinces. A certain part of the loss so suffered is made up by the power of the centre to levy surcharges purely for federal purposes on income-tax, commercial stamps and on certain other taxes, such as succession duties on agricultural land, terminal taxes, and taxes on railway fares and freight. Thus in the new scheme of federal finance, the revenues of India are divided into three main categories (1) Federal, (2) Provincial, (3) Jointly Federal and Provincial. The residuary power of taxation is given to the Governor-General in his discretion who can empower either the federal legislature or the provincial legislature to enact a law or to impose a tax on duty not mentioned in any of the lists—Federal, Provincial and concurrent. The whole position about the central or the federal revenue may be summarised as under:

(*i*) Exclusively Federal items—Import duties (except on salt) contributions from railways, and receipts from other commercial undertakings, corporation tax, coinage profits, and share in profits of the Reserve Bank.

(*ii*) Partly Federal and partly Provincial—Income-tax.

(*iii*) Federal with power to assign a share (or the whole) to units—export duties, salt duties, other excise duties except on alcoholic liquors, drugs and narcotics.

(*iv*) Federal surcharges on some taxes—Succession duties (except on agricultural land). Terminal taxes on goods and passengers, certain stamp duties, tax on railway fares and freights.

Niemeyer Report:—Before the introduction of Provincial autonomy, the Secretary of State appointed Sir Otto Niemeyer to conduct an enquiry into the financial position of the various provinces, the special assistance

required by each and the time and mode of distributing the provincial share of income-tax. Sir Otto was appointed in January, 1936 and his report was published on 30th April, 1936. The Report indicated that it was possible to introduce Provincial autonomy by April, 1937 and the federation about a year later.

Sir Otto made the following recommendations:

(*i*) 50% of the income-tax to be assigned to provinces.

(*ii*) For a period of 5 years, the central government should retain the provincial share of 50% or the sum required to bring the proceeds of the 50% share of the centre together with contribution from railways to 13 crores of rupees, whichever was less.

(*iii*) During a second prescribed period of 5 years, the centre shall relinquish to the provinces by equal steps as much of the provincial share as it retains in the last years of the first period. Thus within 10 years of the commencement of provincial autonomy, the provinces will come to enjoy their full share of the income-tax revenue.

(*iv*) Sir Otto Niemeyer recommended that assistance should be given to provinces in three ways—in the form of cash subventions, in the form of cancellation of net debt incurred prior to 1st April, 1936, and in the form of distribution of a further 12½% (in all 62½%) of the jute export duty to jute growing provinces. In the case of Bengal, Bihar, Assam, N.-W.F.P. and Orissa, the entire net debt was cancelled and in the case of C.P. all pre-1936 deficit debt plus approximately two crores of pre-1921 debt was cancelled. Annual cash sub-ventions proposed by Sir Otto were: U.P. 25 *lakhs* (for five years), Assam 30 lakhs, Orissa 40 lakhs (additional Rs. 7 lakhs in the first year and Rs. 3 lakhs in each of the next four years). N.-W.F.P. 100 lakhs (subject to reconsideration at the end of five years); Sind 105 lakhs (for

a period of 10 years, to be reduced gradually thereafter. In the first year an additional Rs. 5 lakhs to be given). These recommendations were accepted by the Government without any alteration and accordingly an Order in Council was issued on the 3rd of July, 1936 regarding the distribution of income-tax share amongst different provinces, the fixing of the provincial share of jute export duty at $62\frac{1}{2}\%$ and the cash sub-ventions as proposed above for different provinces.

Criticism of the Niemeyer Award :—The Niemeyer award aroused a lot of protest from all quarters. The Central Government felt that as a result of the award its resources were greatly straitened and help given to the provinces was exceedingly generous. On the other hand every one of the provinces had one grievance or another either on ground of being unequally treated in comparison to another or less consideration being paid to her potential needs, or being penalised for her past economy or her claims being neglected. Bombay for example complained that her share in income-tax should have been more as a large amount of income-tax (more than 25%) was realized in Bombay, she complained also that she was penalized for economy in the past and her needs were great as she had to provide for many costly services for the benefit of her population. Madras claimed more on grounds of greater population. Bihar put its claim on the basis of her poverty and Orissa felt aggrieved that she got only Rs. 50 lakhs when Sind was given Rs. 105 lakhs. Amidst the motley of all this criticism, however, it has been argued with much justification that it was impossible to give satisfaction to all and the very fact that every one of the lot has something to complain of should be regarded as proof of the satisfactory nature of the award on the whole.

Provinces Share in income-tax :—Under the Niemeyer award, Provincial share of the income-tax was

made to depend upon the railways obtaining a surplus; and until after five years from the inauguration of Provincial autonomy, the provinces were not expected to get any share. But in the year 1937-8 the railways yielded a net surplus and provinces were given for the first time a share in the income-tax, which according to the revised estimate was put at Rs. 138 lakhs for that year.

Change in the Niemeyer award:—Due to the increased needs of the central government as a result of the rising war-expenditure the Niemeyer award was amended since 1st April, 1939. Under this amendment, railway contribution to the central revenue was altogether to be neglected. The centre was entitled to retain in 1939-40, 1940-41, and 1941-42 Rs. 4½ crores each year out of the provincial share of the income-tax, and only the balance was to be distributed to the provinces. After 1941-42 the retained portion is to be reduced by $\frac{1}{6}$th each year as before. For 1941-42 the share of the income-tax for provinces was placed at 739 lakhs and at Rs. 8.37 lakhs for 1942-43. The above amendment has adversely affected the provincial revenues which is not justified in view of the increasing provincial needs for a number of nation-building departments.

Other changes under the 1935 Act:—The first important point that deserves mention in this respect is about the enlarged borrowing power of the provinces which can raise loans on the security of provincial revenues, the consent of the Federal government being necessary only to borrow outside India or if any part of the loan advanced to a province is still outstanding. Another important change relates to the consolidation in one single amount of all provincial debts bearing a uniform rate of interest. Similarly, all provincial balances so far held by the Government of India have been transferred to the Provinces concerned and from 1st April, 1937 every province now maintains its separate account with the

Reserve Bank of India and keeps cash balances in its treasuries for day to day needs.

Local Finance: So far we have discussed the problem of Indian public finance from the view-point of central and provincial finance only. But in every modern civilized country, the local bodies have also important and growing functions to discharge and hence a study of their financial problem is not in any way less important. We shall consider this question in the following pages in relation to our country now.

Local sources of revenue:—In our discussion of the Indian local finance, our attention will have to be concentrated on District Boards, which are the most important local authority for our rural areas, and Municipalities, which are the local authority for urban areas in the country.

The sources of income of these local authorities may be grouped under the following four heads—(1) Taxes on trade, (2) Taxes on property, (3) Taxes on persons and (4) Fees and licenses.

Taking the District Board's revenue first, we find that from the first head they hardly derive any income. Under the head Taxes on property, their most important sources of revenue are cesses (local rates) on land revenue or rent. The basis of the assessment of the cess varies from province to province. In some as Madras, Bombay, temporarily settled areas of Assam, C.P. and Berar, land revenue is the basis. In the temporarily settled areas of the U.P. and the Punjab annual value of land (defined as twice the land revenue) is the basis. In the permanently settled areas of Madras the rent actually payable to the landlord is the basis. In Bengal, Bihar and Orissa the basis is the rental value less a deduction to be calculated at one-half of the rate for every rupee of the revenue paid. There exists in the permanently settled areas of the U.P.

the acreage basis. The rates of the cesses are left to the discretion of the local bodies subject to the maxima and minima laid down by the provincial governments. They are collected with the land revenue and the limits vary from $6\frac{1}{4}$ per cent. to $12\frac{1}{2}$ per cent. Being levied at a flat rate, the rate is not proportioned to the ability of the payer, nevertheless it is admitted to be an appropriate tax, as being used for purposes of local improvement, benefits the property of the tax payer. To increase the yield from this source it is necessary that land revenue should be standardised at a low rate so that greater margin may be left for raising the local rate. The local rate is the most important source of revenue of rural bodies in India. But there are a few other minor sources also. Thus a tax on circumstances and property, which is an attempt to tax rural incomes, exist in rural areas in the U.P. and is levied on non-agricultural income. In Madras and the Punjab there exists a tax on professions and trades. Both of them fall under the third heading—Taxes on persons, and any one of the two must be levied in all rural areas to tap the incomes of village mahajans and traders. Exception in favour of agricultural income in the case of a tax on circumstances and property should not be made. Another source of revenue in case of District Boards is fees levied by them in educational and medical institutions and for the use of pounds and ferries. Fairs and exhibitions also account for some little share of the District Boards' revenues. And last of all comes the government grants made by provincial governments generally out of their general revenues. The grants are made not only for recurring expenditure on maintenance but for capital outlay on public works also.

Coming to the income of municipalities, the most important items on which they depend are octroi, terminal tax and terminal toll, all falling under the heading Taxes on Trade. They are duties levied on goods and merchandise

entering municipal limits. Terminal tax differs from an octroi in that it is not refunded and is collected by railway authorities. So far octroi duties are concerned, it is now accepted on all hands that they offend against all canons of taxation and are found wanting in certainty, economy, convenience and equity. As necessaries of life are not exempted they lay a great burden on the poor, are a hinderance in the internal trade of the country. The collection of the tax at municipal limits and the system of refunds are inconvenient to the tax-payer and result in laxity of supervisions and evasion of the tax. The ideal, therefore, should be to abolish the octroi altogether, and in the meanwhile to keep it at a low level, grant exemption in favour of necessaries of life as salt, kerosene, sugar etc., arrange for prompt refunds on re-exported goods and reduce the cost of collection by improved administration. Though a terminal tax does not suffer from the defect that arises owing to refunds in case of octroi, but other defects exist and hence the aim in this connection should also be to abolish it. The other important source of municipal incomes is the tax on houses, the annual value of the house being the most popular basis and the rate varying between $7\frac{1}{2}$ to $12\frac{1}{2}$ per cent. The tax is collected from either the owner or the occupier. This is one of the most widespread of local taxes in the world mainly because an improvement in the services of local government is best reflected in an increase in the value of house property. The defect of the tax, however, is that either when it is paid by the owner or by the occupier it is no indication of ability to pay and hence is not equitable. Among the important taxes on persons, a tax on circumstances and property and a tax on professions, trades and calling deserve mention. The first of the two may be an alternative or supplement to the house-tax. Then there are a number of fees and licenses levied for different purposes. Fees for specific purposes

(*e.g.* scavenging) and license fees on carriages, and animals and for regulation of offensive and dangerous trades are common in every municipality. Then last of all comes the item of government grants also in this case as in that of District Boards.

The above is the brief review of the different sources of revenue of local bodies in India. Let us now speak of the expenditure.

Local expenditure in India:—Local bodies in all the civilized modern countries are made responsible for performing a number of functions that contribute to the people's social welfare. Public safety, public health, and convenience, education, civil works, poor relief and police, and improvement of rural industries and agriculture may be mentioned as the main items on which local bodies may be called upon to spend. In India poor relief and police are the two significant omissions in the list. The first point that deserves mention in connection with the local expenditure in India is that it is very small in amount. In 1931-32 local bodies in India, incurred an ordinary expenditure of a little more than Rs. 22½ crores exclusive of the amounts following under debt and other extraordinary items. It formed only 11 per cent. of the total public—Central, Provincial and Local—expenditure of the country. The expenditure per head of population came to Rs. 1-1-0 only. To make a comparison it may be mentioned that the local authorities in England and Wales spent in 1929-30 a little over £425 million, nearly nineteen times the expenditure in India. It was more than 35 per cent. of total expenditure and came to £10-17s. per head of population. In 1929 in U.S.A. the local expenditure constituted 55% of the total public expenditure, in Japan 50% and in Germany 40%. Even if we take the figures for total expenditure, we arrive at no better conclusion. In 1935-36 the total expenditure by District and Local Boards and Municipalities in India was about

57 crores in comparison to the total public expenditure of about 267 crores, *i.e.*, less that 25% of the total* Hence the obvious conclusion is that there is much room for increased expenditure by local bodies in India on various social and economic services.

Another point that deserves mention in this connection is that even this small total expenditure is not evenly distributed between different local bodies. For example in 1931-32 25 per cent. of the total expenditure was incurred by the four corporations of Madras, Bombay, Calcutta and Rangoon which meant a per capita expenditure of Rs. 22-3 0; 35 per cent. by municipalities (781 in all) whose per capita expenditure came to Rs. 5-5-0; and 40 per cent. by the rural boards with a per capita expenditure of annas 7½ only. Making an allowance for the fact that larger wealth of cities justifies a greater per capita expenditure in them, still the truth remains that rural needs have not received the attention they deserve. Coming to items of expenditure, we have to remember that education and public health have got the greatest attention though not necessarily adequate and police and poor relief, and commercial undertakings as water works, gas-works, tramways, markets and land developments schemes have either been neglected altogether or almost neglected. The net result of our observations regarding the expenditure by local boards and municipalities in India is that there is much room for its increase in the existing as well as new directions. This leads us to the crux of the problem of local finance in India, the problem of developing the local revenues. We shall examine this problem now.

Development of the local revenues:—As referred above this is the main problem of local finance in India. It calls for certain administrative as well as

*Figures taken from Appendix F in Growth of Federal Finance in India: P. J. Thomas.

financial measures to be adopted. The reduction in the number of local authorities in rural areas is the first administrative authority. In some province at present we have as many as four bodies—a district broad, a taluka board, a union and village panchayat. This leads to wasteful expenditure on establishment and general administration, as well as financial complications. Only two authorities are sufficient, a district board to perform functions which have to be carried on on a large scale as road-building, provision of hospitals, improvement of agriculture and rural reconstruction work, and a village panchayat to look after other functions as education, sanitation, drainage, registration of vital statistics, vaccination, prevention of diseases of animals, destruction of insects and pests etc. Then such executive functions as assessing and collecting taxes should be placed not in the hands of elected bodies but executive officers enjoying permanence of tenure and free from political pressure of the electorate. So far as financial measures are concerned, first thing is the fullest utilization of all the existing powers of taxation. For example taxes on professions and trades and on circumstances and property should be adopted to a much greater extent than at present. So far as urban areas are concerned addition to the existing taxes is not so necessary, but in rural areas a universal system of village punchayats should be appointed and they should be empowered to levy any tax suited to their locality with, however, the previous sanction of the provincial government or district board. Then, reduction in land revenue say to a uniform rate of 25 per cent. in all provinces and leaving say another 25 per cent. for local bodies would also augment the local revenue a great deal. Duties on unearned income from land may also be of great help. Increase in provincial grants is another method that should be resorted to. It would, however, require increased resources for provinces also

which is in itself a problem. Undertaking of remunerative enterprises as in western countries would be another source of income to local bodies. There exists, for example, a large field for this in respect of bus-services, electricity supply, waterworks and land development. But before they can be converted into revenue yielding sources, a large initial expenditure would be called upon. This should be met by borrowings. Hence a more progressive loan policy is also an essential element in the revenue-increasing programme of the local bodies. And last but not least important is the change in the mentality of the masses so as to make them more sympathetic to programmes of increased taxation by the local bodies. They have to give the old and orthodox attitude of hostility to all taxation whatever the purpose and objective of levying it. These then are the ways that may prove useful in augmenting the revenues of local bodies in the country.

The concluding remarks:—We have finished our examination of the different aspects of public finance in India. What is the lasting impression that such an examination makes? What appears to us as the crux of the problem of public finance in the country? In one word, our problem is the problem of equipping the provincial and local governments with adequate funds so as to enable them to discharge their growing functions in the field of social and economic services well. But how is this to be achieved? If we look at the problem from the static point of view, the position appears to be more or less hopeless. In view of the existing standard of the central government's expenditure in the field of defence and debt-services which has further increased due to the present war on the one hand, and the expected decline of such an important item of central revenue as customs as a result of a policy of increasing protection to home industries in future on the other, there can be no hope of the centre relinquishing any further revenue as income-tax

revenue in full in favour of provinces. And if provinces continue to starve, how can there be any great improvement in the financial position of the local bodies? Thus a vicious circle presents itself and we find ourselves at the end of our units. But given a dynamic view of the whole situation, the position need not appear so perplexing. A rigid economy on the part of the central government in all fields either defence or civil administration, and a more efficient working of commercial undertakings so as to yield increased revenues would make it possible for the central government to equip the provinces with further items of growing revenue. The reform at the top would naturally permeate to the bottom and the position of the local bodies would improve. That is, however, the one and the less important part of the scheme. The more important part of it consists in initiating a planned programme of economic reconstruction of the whole nation at the government's initiative so as to increase the national dividend and in turn to widen the existing sources of government revenue and add a number of new ones also to them. This would call for a more progressive loan policy on the part of the central, provincial, and local governments and which should be unhesitatingly adopted. To sum up the conclusions, therefore, we can say in one sentence that the real solution of the problem of our public finance lies in viewing the whole problem not as one of budget-balancing but as a much wider one of forming an integral part of the development of the social and economic life of the country as a whole.

TABLE A.

General Statement of the Revenue and Expenditure.

(Central Government).

(In thousands of Rupees).

	Estimate for 1942-43
Revenue—	
Principal Heads of Revenue—	
Customs	35,35,00
Central Excise Duties	12,65,00
Corporation Tax	21,99,00
Taxes on Income other than Corporation Tax	33,63,00
Salt	9,00,00
Opium	82,00
Other Heads	1,23,06
Total—Principal Heads ..	1,14,67,06
Railways: Net Receipts (as shown in Railway Budget)	56,96,13
Irrigation: Net Receipts	1,57
Posts and Telegraphs -: Net Receipts ..	4,92,45
Debt Services	60,29
Civil Administration	1,01,75
Currency and Mint	3,25,50
Civil works and Miscellaneous Public Improvements	35,20
Miscellaneous	1,67,50
Defence Services	1,95,63
Contributions and Miscellaneous Adjustments between Central and Provincial Governments	....
Extraordinary Items	6,04,99
Total Revenue	1,91,48,07
Deficit	35,06,84
Total	2,26,54,91

Expenditure—

Direct Demands on Revenue (cost of Tax Collection)	5,03,63
Capital outlay on salt works charged to revenue	44
Railways: Interest and Miscellaneous charges	36,83,44
Irrigation	9,13
Posts and Telegraphs	70,85
Debt Services	10,71,74
Civil administration	15,97,24
Currency and mint.	1,53,25
Civil works and miscellaneous public improvements.	3,25,68
Miscellaneous	3,63,38
Defence Services	1,34,95,57
Contributions and miscellaneous adjustments between central and provincial governments	2,77,28
Extraordinary items	11,03,28
Total Expenditure charged to Revenue ..	2,26,54,91

CHAPTER XXVIII.

TRANSPORT.

Importance of Transport:—Improvements in the means of transportation and communication has always played a very important part in the history of civilisation. It is with the development of means of transportation that isolation of different geographical units breaks down and intercourse between the residents of those geographical units is made possible. Improved means of transport and communication are the very life blood of trade and commerce and indirectly the production of wealth is also determined by the facilities of transport and communication which the country possess. Without having developed means of transportation and communications development of trade, commerce and industry is not possible. A good system of communications by land, water, and air is one of the most important of all the necessary factors for the economic prosperity of a nation. It encourages both agriculture and industries by enabling them to be organised on commercial lines so that their development and size is not restricted by the local demand. And as far as commerce is concerned it is absolutely dependent upon it. Isolation of people brings about more or less self-sufficient economy and consequently economic backwardness. Even to-day Tibbet and such isolated tracts are economically most backward and one of the most important factor responsible for their economic backwardness is their isolation due to undeveloped means of transport and communication. In short the development of means of transport and communication enable the country to utilise its economic resources to best possible advantage. The importance of transport from military, administrative, cultural and social point of view is very great indeed. The Moghul Emperors were in constant fear of rebellion in some part

or the other of India because of the lack of rapid means of transporting troops. Means of transportation have a profound effect on the development of culture and civilisation. Ganges, Sindhu, Nile, Yangtse and Rhine have been the cradle where very old civilisations grew and developed. In fact those countries owe much to these rivers.

Throughout the history of India difficulties of communications have been a predominating factor in determining political and economic development. In the modern times these difficulties have been removed to a considerable extent but they have not been fully removed. The lack of sufficient means of transportation and communications are a very important cause of industrial and argricultural backwardness of India. The villages of India are still without railway or pucca roads and therefore they are isolated and are forced to adopt more or less self-sufficient economy. Agriculture cannot be thoroughly commercialised. Local economy is prevalent with all its attendant handicaps in respect of markets and division of labour. It leads to comparative immobility of labour and perpetuates the conservatism of the people. In times of famines and scarcity the whole economic life of rural areas is violently dislocated. In short improved means of transportation and communication are one of the most necessary requisite for all-sided development of the country.

Service performed by transport to industry and commerce:—Transport facilities help to provide industry with its raw materials without which no industry would be conceivable and also the market for finished goods. In the days before the modern development in the domain of transport such a phenomenon as the textile industry in Manchester getting all its raw material from U.S.A. and sending all its finished goods to Eastern countries would be impossible. The rail roads, steamers, and the motor lorries help these industries to be established,

and developed thousand miles away alike from the sources of the raw material and the market for the finished goods. But for the facilities of transport and the diminution of its costs and risk modern large scale production would be almost inconceivable.

While industry requires transport as an auxiliary, commerce would be simply impossible without modern transport facilities. Transport in a word makes commerce. It is the very life blood of exchange, and therefore of commerce.

Means of Communication in India:—As late as the middle of the nineteenth century the means of transportation and communication in India were comparatively defective. It was in the later half of the nineteenth century that railways were constructed with great haste in India. Before Mutiny India had only a few trunk roads constructed by Indian rulers specially in northern India. But they were totally inadequate for the moderate needs of the country in those days. Many of the so-called roads were kachcha tracks made by wheeled traffic and they were impassable during the rainy season. Pack animals led by caravans were the only means of access in many parts. Moreover the roads were unsafe being infested by highwaymen like the Thugs and the Pindaris. Travelling in those days was full of risk and dangers. In north the river Ganges and Indus were the great natural highways of commerce and therefore in the regions situated along these rivers facilities of transport were much better. The coastal district with the facility of water transportation were better situated than other parts of the country. In the Northern India with its vast plains easily traversable in the dry season; its navigable rivers and roads, the state of communication was much more satisfactory than in the Peninsula with its rugged mountainous territory and lack of facilities for water transport except on the coasts.

The Mutiny brought home the great need of developing means of communications for administrative purposes. And rapid construction of railways and roads was taken in hand by the Government in India after 1857. Though comparatively speaking there has been great development of means of communications in the country after 1857 yet they are far from being adequate. Rural arreas are still totally devoid of the modern means of transportation and communication resulting in their economic backwardness and isolation.

The reasons are not far to seek. India is a subcontinent, the distances to be traversed are tremendous and the natural obstacles to overcome in passing from one part to another are formidable. Relief, floods, rains and rivers are to be managed and during rainy seasons internal communications often break down in restricted areas. The capital needed for equipping the country with an uptc-date system of transport adequate to its requirements will be enormous. Moreover India has less facilities of using waterways. She is less fortunate in respect of waterways than other countries like England, Japan etc. And finally the apathy of the Government towards rural areas has been a major cause of undeveloped state of rural transport, this is why the Rural India is not supplied with modern means of transportation.

In the following pages we will study the problem of transport in India under these headings (1) Railways; (2) Roads; (3) Waterways; (4) Caravan routes; (5) and Air Transport.

RAILWAYS

Introduction of Rail roads into India :—The idea of constructing a line from Calcutta towards North-West which ultimately matured into the East India Railway, first occurred to its founder Sir Macdonald Stephenson in 1841. In July, 1844 he made an official proposal on

the subject to the Government of Bengal. In November, 1844, Messrs. White Borret & Company on behalf of the Great India Railway Company approached the Court of Directors with a proposal to construct a trunk line across Deccan with branches to the North and South. Three weeks later formal proposals for the East India Railway were also placed before the home authorities. At that time there was a lot of discussion going on in India and England on the desirability and practicability of opening railway lines in India.

In May, 1845 the Court of Directors of the East India Company gave the formal recognition to the desirability of railways in India, and called the attention of the Governor-General in India to the following peculiar difficulties:—(1) Periodical rains and inundations. (2) Continued action of violent winds and influence of a vertical sun. (3) Ravages of insects and vermin. (4) Destructive growth of spontaneous vegetation. (5) The unenclosed and unprotected tracts of country through which rail roads would pass. (6) The difficulty and expense of securing the services of competent engineers.

It was also feared that as the people of India were poor and in many parts thinly scattered; passenger traffic would not be substantial.

It was in August, 1849 that the first contracts between the East India Company and the East Indian and Great Indian Peninsular Railway Companies were signed. Thus after a delay of more than 4 years the first stage in the history of Indian Railways was reached and a policy of experimental lines was inaugurated.

✓ The substance of the first agreements was that the Government relieved the shareholders of all risks gave them some expectation of profits over and above the guaranteed interest of 5 p.c. and claimed in return reasonable powers of control and ultimate right of purchase.

The principal defects in the contracts lay in making no provision for the State's participation in profits, in permitting a fixed rate of exchange to govern the transactions (1s. 10d. to the rupee), in allowing the guarantee to run from the day of deposit of money and not from the day of opening of the lines, in providing little check on the capital expenditure of the companies, and in granting the private enterprisers opportunities for enjoying the full benefit of unearned increment in the value of property when the time for the state purchase of railways come.

Under this contract the East India Company allowed two small railway lines to be constructed near Calcutta and Bombay by East Indian and Great Indian Peninsula Railway Companies respectively.

Lord Dalhousie had by this time become the Governor-General of India. He was not satisfied with only one small experiment which he apprehended might not prove encouraging. He called the attention of the Court of Directors to the necessity of broad trunk lines commensurate with the needs of the country in his famous minute on the subject in 1853. In this minute Lord Dalhousie reviewing the whole situation pointed out the great advantages to India of the construction of a network of railways. He laid great stress on the trunk lines being constructed connecting the interior of each Presidency with its principal ports and connecting the different Presidencies with each other.

"Great tracts are teeming with produce they can not dispose of. Others are scantily bearing what they would carry in abundance if only it could be conveyed whither it is needed. England is calling aloud for the cotton which India does already produce in some degree and would produce sufficient in quality and plentiful quantity if only there were provided the fitting means of conveyance for it from distant plains to the several ports adapted for its shipment. Every increase of facilities for trade has

been attended, as we have seen, with an increased demand for articles of European produce in most distant markets of India. Ships from every part of the world crowd our ports in search for produce which we have or could obtain in the interior but which at present we cannot profitably fetch to them and new market are opening to us on this side of the globe under circumstances which defy the foresight of the wisest to estimate their probable value or calculate their future extent." I conceive "that experimental lines of small extent are at this day no longer requisite". If the lines were judiciously selected, well and economically constructed, and safely and thriftly worked there was no doubt that they would be remunerative. And even if the railways should not prove profitable, the many other direct and indirect benefits, political, social and commercial would be so great "as to render the payment of guaranteed interest a burden which the Hon'ble company may cheerfully and contentedly bear." Lord Dalhousie was of the opinion that the construction of the railways by private companies under the supervision and control of the Government was the best policy and the creation of great public works, which although they serve important purposes of state, is no part of the proper business of a Government. He further argued that the utter helplessness of Indian community to do anything for itself and its total dependence on the Government was one of the greatest drawbacks of the country. It was therefore eminently desirable to encourage private enterprise in all semi-commercial undertakings. He was very anxious for attracting English capital and enterprise to Indian industries and commerce and he believed that "the successful employment of English capital and English energy in railway undertakings woud lead to more extensive employment of similar efforts thereafter, in connection with the products and trade of India." These companies he suggested should enjoy a Government guarantee of

interests for without it private capital would not brave the risk of such pioneer enterprise in a sub-continent like India.

The dangers of guarantee, the possible neglect of economy were all foreseen but it was thought that such apprehensions were not well founded but here Lord Dalhousie erred as subsequent events proved.

The old guarantee system (1850-1868) :—The Court of Directors of the East India Company approved the policy suggested by Lord Dalhousie in August 1853. In accordance with Dalhousie's plan contracts were entered into with 8 companies between 1854-60 for constructing and managing railways in different parts of India.

New contracts were drawn up between the East India Company and the East Indian Railway for construction up to Delhi and between the former and the Great Indian Peninsula Railway for the whole line up to Northern India on the one hand and to Raichur to the South on the other. The third contract was entered into with the Madras Railway Company in August 1858 embracing the whole system of Madras Trunk lines both towards the west coast with branches and towards the north-west to meet the line from Bombay. The fourth important trunk line company, which obtained sanction in the same period was Bombay, Baroda and Central India Railway. Contracts were also entered into with Eastern Bengal Railway Company and South Eastern Railway Company, to construct railway line in Bengal and Eastern part, the Sindh Railway Company in Sindh and Punjab and The South India Railway in extreme south.

The main features of the contracts with the old guaranteed companies were as follows :—

1. The contract was for 99 years, and a guarantee of interest on all money paid into Government treasury was given for the whole period. The rate of interest varied from $4\frac{1}{2}$ p.c. to 5 p.c.

2. The amount advanced for the guarantee was to be repaid to the Government from the profits of the railways, half the excess over the guaranteed minimum being so applied, the other half going to the shareholders.

3. The Government retained the power after 25 or 50 years of purchasing the railway at the mean market value in London of the shares during the three years preceding the purchase, but the railway companies could surrender their lines at any time to Government claiming the whole amount spent on the undertaking back.

4. Land was to be provided free by the State for the railways.

5. The route, gauge, construction, gradients etc. must all be sanctioned by the State.

6. The Government had entire control and supervision of the working and the power to approve the rates and fares, and to reduce them when railway paid more than 10 p.c.

7. All money transactions were to be calculated at the rate of 1s. 10d. to the rupee.

The terms of the contract were the same as that of experimental lines and therefore they suffered from the very same defects mentioned above.

This system however proved a great failure from financial point of view. It put a great financial burden on the resources of Government of India and the taxpayers in India. Companies had no incentive to practice economy. They carried on wasteful expenditure and therefore they were unable to earn their 5 p.c. and called upon the Government to make good the deficiency. The deficit in the railway budget amounted to Rs. 1,66,50,000 by 1869. The extravagance of these companies could not be checked under the system and the Indian tax-payers were made to pay huge amounts. The supporters of the

old guarantee system including the Acworth Committee have expressed the opinion that the formation of English domiciled companies at that time was the only practicable course which could be adopted. Railways were urgently needed in India and the Indian capital being shy it was necessary to give special attraction to British capital for this purpose. But this is a wrong statement of the facts. Competent authorities have questioned the wisdom of this policy and denied that English capital could have been attracted only by the inducement of a guaranteed rate of profits. By that time in England an immense amount of capital had accumulated which had no scope for remunerative investment at home and which was seeking outlets in South America and other countries. Had not the Indian Government adopted this ruinous policy of giving guarantee the capital would have flowed towards India without guarantee. Unguaranteed capital would have come to India for the construction of railways had not the Indian Government set up this example of guaranteeing the interest to British capital. Moreover the rate of interest actually guaranteed was very high. British capital and enterprise could easily be attracted by offering much lower interest because at that time conditions of borrowing were extremely easy in the London money market. It is proved beyond doubt by the fact that later on Government could enter into contract with new companies under revised guarantee system on terms much less favourable to the companies in respect of the guaranteed rate of interest and other concessions. These companies imported all the material from England. They had no business to develop industries in India to supply these materials and this was another reason why the cost of constructing railways was high. Apart from the loss to the country due to unnecessary liberal terms granted to the companies the Government also did not care to build up any of the

industries required to supply the materials demanded by the railways.

State construction and management (1869-82) :— The defects of the guarantee system as put in operation in India soon manifested themselves. The Government of India was very much dissatisfied with the results. The financial obligations which the Government of India had to meet on account of the old guarantee system were too heavy and therefore the Government made an unsuccessful attempt during 1862-64 to secure the construction of railways in India on terms more favourable than those offered to the original companies.

In 1864 the Secretary of State decided to encourage new construction only with some assistance other than a guarantee. In the case of the Indian Branch Railway Company renamed Oudh Rohilkhand Railway a subsidy of £100 per annum per mile opened for 20 years from the date of opening was proposed. Other companies were also offered the same terms. But the attempts to construct railways on subsidy system failed. Therefore in 1867 the Secretary of State informed the Government of India that as attempts at independent companies had been a failure, it had after all been found necessary to revert to guarantee system.

However the Government of India were not prepared to continue the old guarantee system and therefore the old guarantees were modified. The Secretary of State after prolonged negotiations offered in 1869 to wipe out the whole debt on account of the advance of guaranteed interest and to keep no further account of such liabilities of the companies on the condition that the Government would receive for all time to come half the surplus net profits. The East Indian Railway which had by this time begun to show profits rejected the offer. The G.I.P., B.B. & C.I.R. and some other railway companies accepted the offer.

But the Secretary of State had to grant a further concession of waiving the Government's right of purchase after the first 25 years.

An even more important change in the policy was brought about by the decision of the Secretary of State that as far as capital for new lines in India was concerned the State should take advantage of its own credit, so that capital may be raised at a lower rate of interest and cheaper methods of construction and management should be adopted. The Secretary of State was of the opinion that the State would be in a position to raise capital at a much lower rate, and would get railway lines constructed at a much lower price. Accordingly for several years after 1869 the capital expenditure was chiefly incurred direct by the Government and no fresh contracts with guaranteed companies were made. It was decided to borrow annually upto two million pounds for constructing lines to be managed by the State and to reduce the heavy cost of construction a much cheaper gauge called meter was adopted. Many railway lines were constructed and as far as cost was concerned this policy proved satisfactory. But the difficulty of securing enough funds proved formidable. Fear of Russian invasion and forward Frontier policy necessitated diversion of a substantial portion of the capital resources of the State to the construction of military and strategic lines on the North West Frontier. This was done regardless of cost and commercial prospects, and the State lines were burdened with a large amount of unproductive capital.

Meanwhile the Famine Commission recommended that railways must be rapidly developed to make the repetition of previous disasters due to famines impossible. It was estimated that the country needed at least 20,000 miles of railway line for protective purposes and an immediate addition of not less than 5,000 miles was urged. The Government of India was highly impressed by the

demand of Famine Commission, but was at a loss to find the necessary capital. The financial condition of the Government of India at that time was extremely bad. The falling rupee was making great inroads on the Exchequer, the famines between 1874 and 1879 also placed a heavy burden on the State finances. The Frontier war with Afghanistan and the growing military expenses had already put a very heavy financial strain on the Indian Government. The Government of India therefore were forced to the conclusion that the State alone could not find sufficient funds for pushing ahead with railway construction as far as Famine Commission recommended and decided again to take the help of capital borrowed by private companies.

Revival of companies—New Guarantee System (1882-1902) :—Not being satisfied with the results obtained by State construction and management of railways by 1880 the opinion again favoured private agency for the job. It was decided to utilise the services of guaranteed companies with certain modifications of the old terms, and contracts were made with new guaranteed companies such as the Bengal, Nagpur, Rohilkhand, Kumaon, Southern Marahatta and Bengal and North Western Railway companies. The chief features of the new guarrantee system were as follows :—(1) the lines constructed by the companies were declared to be the property of the Secretary of State for India who had the right to terminate the contracts at the end of 25 years or at subsequent intervals of ten years on repaying at par the capital provided by the companies. (2) Interest on the capital raised by the companies was guaranteed at the most usual rate of $3\frac{1}{2}$ p.c. (3) Government retained a much larger share (usually three-fifths) of the surplus profits for their own benefit. These lines, which were constructed by the companies were from the beginning the property of the State though a certain rate of interest was guaranteed

on the share of capital raised by the companies and were allowed to manage these lines when completed.

As far as old guaranteed companies were concerned the policy was not uniform in all cases. But mostly Government exercised their right of terminating their contract. In some cases like Eastern Bengal, Oudh Rohilkhand and the Sindh Punjab railways the lines were purchased and the State also took over the management. In other cases like E. I. R. and G. I. P. the lines were acquired by the State but the companies were allowed to manage the lines under revised contracts. Similarly when the contracts of new guarantee companies expired the companies were allowed to manage the lines but the Government secured more favourable terms in the form of reduction in the companies share-capital and in the rate of interest guaranteed and by further modifying clauses relating to the division of profits.

During this period companies lines side by side state lines were constructed. The agency for construction or management was, however, determined as circumstances necessitated, and, for many years following the actual operations continued to be a little cumbersome. As a result a complicated variety of working and owning agencies grew up. This was thus commented upon. "To sell a railway one day and buy another the next, to build a railway and then lease it to a company and at the same time to take over another line on lease. All this shows that there was total want of a systematic policy and good judgment which has characterised the railway administration of the Indian Government.

Branch Line Companies (1893-96) :—During this period attempt was made to encourage the construction of feeder lines by branch line companies. The main terms of proposals were as follows :—Land was to be given free, surveys being made at State expense. Stores and

materials would be carried by state lines at favourable rates. Rolling stock supply, maintenance and working of the lines would be carried on by main line administrations at special rates and a limited rebate from the main line earnings would be paid towards ensuring the proprietors of the Branch lines a dividend of 4 p.c. These rebate terms being unattractive had to be revised from time to time so as to provide for an absolute guarantee with a share of surplus profits or a more favourable rebate. But on the whole this system did not work well financially and was adversely criticised by the Acworth Committee. The Committee recommended that the Government should abandon this policy by reducing the number of existing branch line companies by amalgamation and should undertake the construction of such lines themselves, except when thy could not or would not provide adequate funds. Accordingly the Government decided in 1925 to find the necessary capital themselves for the construction of branch and feeder lines. They have also expressed their willingness to construct such lines for purely local or administrative convenience upon a guarantee against loss by the Local Government or local authorities concerned.

Indian State Railways:—The Government of India also invited to undertake railway construction in their own territories and Hyderabad State was the first to do so. Corresponding to the system developed in British India 3 distinct types grew in Indian States as well. In the first place some States found all the necessary capital, and undertook the construction as well as management themselves or handed over the work of management to neighbouring main line companies. A second group advanced money to the Government of India at a specified rate of interest and a share of surplus profits or on a guarantee of interest alone. The construction and management were left to be arranged by the Indian Government. The third system was the guarantee system in which Hyder-

abad and Mysore States handed over their lines for management to English domicile companies. Capital was partly found by the States on specified interest and share of profits and partly by companies on a guarantee of interest together with a share in the surplus net earnings. Recently the States have also shown the tendency of taking over the management of their own lines and have constructed new ones themselves:

A few District Boards also constructed small lines in their districts and a few unassisted railways were also constructed. The study of the District Board lines brings about the fact that all the railways owned or assisted by such boards lie in the Madras Presidency, Bengal and Assam.

The Present Position :—The existing arrangements between the Government and the Guaranteed Companies is as follows. The State has now come to be the owner of all the trunk lines. The greater part of the capital invested in railways has become the State property either through having been originally supplied by the Government or by acquiring the companies interests on the termination of old contracts. The capital owned by the companies represents a very small portion of the total capital. Though some of the companies still manage the railways but the Government has adopted a definite policy of taking over the management also into their hands as the contracts terminate. In the case of those railways which are still managed by companies the Railway Board exercises sufficient control (which was established in 1905) in matters concerning standards of repairs, rolling stock, public safety, co-ordination of railway systems, train services, rates, and fares etc. The Government has also the power to appoint a director to the boards of companies. All these contracts are terminable at the option of the Secretary of State. Recently the Government of India

has taken over the management of some important railways. Now the Indian Railways are cent per cent owned and managed by the State.

Railways before 1900 :—Till 1900 railways in general showed a constant loss and the Indian tax payer was made to pay that loss. This was due to waste and uneconomic management. Moreover the rate policy of the companies was very much criticised as they encouraged the import of manufactured articles and export of raw materials to the detriment of Indian industrial development. Finally the comfort of third class passengers was grossly neglected from whom the railways secured their major portion of income.

Railways after 1900 :—With the beginning of the twentieth century a new era in the development of Indian Railways began. Traffic had grown enormously and the railways began to pay profits. In 1905 a Railway Board was established at the head of the railway system under the Department of Commerce and Industry.

In 1908, a special committee, presided over by Sir James Mackay, examined the problems of Indian railway finance and administration. During this period the public opinion in India was unanimous on the state management of railways. Thus the most outstanding feature of railway policy during the period 1882 to 1924 was the acquisition of ownership of lines by the State, and re-transfer of those for management to newly modelled companies, whenever that could be secured with advantage. The Indian opinion was not at all satisfied with this policy. The ill-treatment of 3rd class passengers, the manipulation of rates and fares to cripple Indian industries and trade, and the inability of the railways to keep sufficient supply of wagons were due to the companies managing the railways. People in India wanted direct State management.

The Mackay Committee laid down for the future a standard of £12,500,000 as the annual programme for capital expenditure on railways. The standard recommended by the Committee could not be attained but during this period the railway construction went on with moderate rapidity. The railway mileage in this period increased from 24,752 in1900 to 34,656 in 1913-14 and the capital outlay from Rs. 329.53 crores to Rs. 495.09 crores.

The railway profits commenced in 1900. By 1900 losses to the state during the first Forty years amounted to Rs. 58 crores. After that the railways began to yield a net return to the State on capital outlay at charge. Between 1903 and 1924-25 the net earnings of the railways rose from Rs. 18.9 crores to Rs. 45.4 crores per year, there being only three periods when the earnings fell as compared with previous year. The percentage of net earnings to total capital outlay averaged 5.6% during the six years 1903-1908, 5.8 % during 5 pre-war years, 6.8% during 1914-15 to 1918-19, and 5.2% during 1920 to 1925. During the next 5 years the average was 5% and after 1930 to 1937 the income fell to 3.5%. Regarding these profits a general criticism was levelled against the policy of not allowing sufficient depreciation on capital. Nontheless the railways became definitely a paying concern and there was no longer any ground for complaint about the financial burden of railways on the Indian tax-payer.

The net gains to the State from railways greatly fluctuated from year to year. This was principally due to the dependence of Indian railway receipts on harvest and trade. The Retrenchment Committee (Lord Inchcape) laid down that a 5½ per cent. net return on the capital outlay should be aimed at by the railways.

Breakdown of railways during war (1914-21) :— During the period of war railway system in India

deteriorated to the extreme and there was virtual breakdown. A considerable part of the rolling stock and staff was sent to Mesopotamia, Palestine and other war theatres which depleted the capacity of railways to serve the country to a considerable extent. To make the matters worse the Indian railways had to move a large number of troops and war materials, this strain was unbearable. Moreover due to financial difficulties the Government curtailed the annual programme of railway construction to a great extent. Over and above these difficulties it was practically impossible to obtain railway material from England. No further extension of railways was possible and even the existing ones could not be maintained in proper condition. The Acworth Committee described the condition in the following words: "There are scores of bridges with girders unfit to carry train loads upto modern requirements, there are many miles of rails, hundreds of engines, and thousands of wagons, whose rightful date for renewal is long overpast". This is why the public opinion in India became extremely hostile to the management of State railways by English domiciled companies and demanded that the State should take over the management wherever possible.

Acworth Committee:—The Railway Board could not effectively tackle the situation and the Acworth Committee was appointed in November, 1920 to examine the railway problems in India. The Committee thoroughly examined all the questions related to railways in India and made valuable recommendations on some of the most important problems, such as railway management, railway finance etc. We shall now deal with the State *versus* Company management controversy.

State *versus* Company management:—There has been a long controversy whether Company management or State management is more suitable for India. The

following points are put forward in favour of Company management:—

(1) The railways managed by Companies show a continuity of policy which is absent in the State-managed system.

(2) The vigorous initiative displayed by Company-managed railways leads to progressive development.

(3) The Board of Directors managing a railway company are themselves the proprietors and therefore they take greater interest in extending the lines to the best commercial advantage.

(4) Red-tape control which is a characteristic of State management leads to rigidity in the working of the State-managed railways. In a Company-managed railway the Directors promptly come to a decision.

(5) The State cannot borrow for railway purposes unlimited amounts which may be necessary for railway development. Thus the progress of railways under State management will be a halting one. Under Company management this difficulty will be obviated.

(6) Economy will not be practised under State-managed railways while under Company management principles of economy is bound to be followed.

(7) Company-managed railways will readily adopt new and improved methods.

(8) Difficulty in adjudicating disputes in which Government is a party.

(9) Possible sacrifice of the interests of State railways to political or strategic considerations.

Against this the supporters of the State management assert:—

(1) It is wrong to say that Company management is more efficient than management by the State. The Acworth Committee observed that so far efficiency is con-

cerned there is nothing to choose between them. The State Railways are as much ready to adopt new methods as the Company-managed railways.

(2) The rate policy of the Company-managed railways is highly prejudicial to the interest of Indian industries and trade. They have so directed the rate policy as to encourage export of raw materials and imports of manufactured goods from abroad.

(3) The Company-managed railways do not treat the employees with due and adequate consideration. This results in strikes and consequent dislocation of traffic.

(4) The capital invested in the Indian railways have been raised through the guarantee of the State. Capital is attracted into the railways, not on account of efficient company but on account of financial guarantee provided by the State for the payment of interest.

(5) The Company-managed railways pay too much attention to commercial considerations and their chief motive is dividend. Wider national interests are ignored if they run counter to their prospects of immediate gain. Under State management the interests of the country will be put first and commercial considerations will come next.

(6) The property entrusted to the management of the Companies is not their property. In fact their financial stake is very small. The capital owned by the Companies is about 4 per cent. of the total capital invested by the State in the railways. This is bound to lead to a bad management. Moreover when the State has so much stake it cannot but exercise control over the railways though managed by Companies. So if the State takes over the management of the railways it would not make much difference from the point of view of initiative.

The Acworth Committee considered the question of State management *versus* Company management in the

light of Indian conditions. The Committee found that State ownership exists for the most part in India and also there is direct State-management in some cases. The railways owned by the State were generally managed by the Companies. These companies were of London domicile. The Acworth Committee were divided as to whether the alternative should be State-management or management by Companies of Indian domicile. The majority of the Committee was of the opinion that by merely changing the domicile of the Companies from foreign to Indian domicile would not benefit the country or the railways and therefore they gave their verdict in favour of State-management. The Indian public opinion also was strongly in favour of State-management. The Government accepted this recommendation of the Committee and the railways are gradually being taken over for management by the State.

Separation of Railway Finance from general finance:—The question of demarcating railway finance from general finance was a controversial point. Those who favoured separation of these two finances thought that this would improve the efficiency of the railways. The Acworth Committee gave its verdict in favour of separation on the following grounds:—

(1) It would remove the element of uncertainty from the annual budget. Under the system of unification of the finances the railway profits were included in the Budget estimates. These profits greatly vary according to business and trade conditions. The result was that an uncertain element was introduced in the Budget.

(2) The railways had to depend for their finances on the general Budgetary provisions. This prevented their working on a commercial basis.

(3) The Government would also be freed from many difficulties if separation was introduced.

The Government realised the importance of separation and therefore they brought a resolution before the Legislative Assembly in 1924. Finally the Assembly agreed upon separation of the railway finances from the general finances on condition that the former should make a definite annual contribution to the latter which would be a first charge on the net receipts of the railways.

Railway Finance after separation:—After the railway finances were separated from the general finances during the first six years (1924-25 to 1930-31) the railways had a sound financial position and surplus revenues amounted to Rs. 52,64 lakhs. During the next six years there was a deficit amounting to Rs. 41,63 lakhs. Upto 1930-31 the railways contributed nearly Rs. 42 crores to the general revenues. They also accumulated a balance of Rs. 41.5 crores in their depreciation fund during the same period. From 1931-32 the railway finances deteriorated. There were several factors which were responsible for this deterioration. The railways felt the full effects of the competition of sea and road transport. The acute world depression also had a depressing effect on Indian traffic both goods and passengers. The working expenses of railways also became disproportionately heavy. Due to the partial recovery of business and trade the finances of railways showed a little improvement. With the war boom conditions appeared, trade and industry became very active, prosperity returned again to industry and railways again began to contribute towards general revenues. In 1939-40 there was a net surplus of Rs. 4.33 crores. In 1940-41 there was an increase of one anna in the rupee of fare and an increase of two annas in the rupee on most commodities except food, fodder, manure and coal. In the revised Budget estimates for 1944-45 the surplus was estimated at Rs. 42 crores. One very important factor which lead to better earning was the disappearance of road motor competition. Due to petrol

shortage and higher price of motor trucks the motor competition practically stopped. Moreover due to war reasons the train services were cut short but the passenger traffic increased due to the stoppage of motor bus competition, this is why railways earned very high earnings. The surplus for 1943-44 was Rs. 50.84 crores, 1944-45 Rs. 42 crores, estimated surplus for 1945-46 was Rs. 36.5 crores.

The (Wedgwood) Railway Inquiry Committee :— Just before war as we have already seen the financial position of Indian railways deteriorated to a serious extent. This created a demand for a searching enquiry into their affairs. Therefore in October, 1936 a Railway Enquiry Committee was appointed with Sir Ralph L. Wedgwood as its chairman. Their report was submitted in June 1937 and contained important recommendations as to every aspect of railway working with a view to improve their working efficiency and economy. The Committee proposed that the system of annual contribution to general revenues should be abandoned. They also suggested that the recruitment of European supervisors in the workshops and officers in the commercial departments should continue. There was a great political resentment against these two recommendations of the Committee. The Government assured the Central Assembly that Government will scrupulously honour the pledges made in The Niemeyer Award and assistance would be extended to Provinces out of railway surpluses. The Central Government also assured the people that there would be no departture from the policy of progressive Indianisation of railways. The Committee however made valuable suggestions in regard to railway rates. They criticised the structure of Indian Railway rates as cumbrous and recommended that the Railway Board should enquire into the system of charging at scheduled rates for the purpose of introducing simplicity. They also recommended that the procedure of the Rates-Advisory Committee should be made more

expeditious and the public and the Government should refer to them. The Committee also urged the importance of railways increasing their popularity and improving their relations with the public.

Railway Rate policy:—The railway rate policy has long been criticised in India by every right-minded man. The railway rates in India have been based on sole considerations of pecuniary gains to railways and the general good of the country was all along neglected. And the worse is that the rates have been so manipulated so as to help European merchants and hinder the development of Indian industries. From an analysis of railway rates in India it could be shown that the railways charge much lower freight for transport of goods to and from ports. This encourages the exports of raw materials and food stuffs and imports of manufactured goods. On the other hand Indian traders and industrialists have to pay very high freight rates. This unjust treatment of Indian railways enables the foreign competitors to hit Indian manufacturers hard. The rates policy of Indian Railways was so designed as to check the industrial development of India. For instance if cotton is to be transported from one interior point to Bombay the rate would be much lower than in the case of cotton being transported from one interior point to another interior point. This policy has been responsible for the concentration of industries in the port-towns. Sir Ibrahim Rahimutulla vehemently criticised this policy in the Imperial Legislative Council and while giving his evidence before the Industrial Commission, Fiscal Commission and the Acworth Committee.

The Industrial Commission after giving it a serious consideration recommended that rates for internal and external traffic should be equalised with a view to the development of the manufacturing industries. The

Fiscal Commission thought that there was some definite foundation for the view that the railways have treated Indian industries unfairly through rate manupulation. They agreed with the recommendation of the Industrial Commission and further pointed out that the railways should grant special rates to new industries which could justifiably claim special treatment. The Agricultural Commission also examined the question of railway rate policy and recommended that there should be greater co-ordination between the Railways and the Agricultural Departments. They also recommended the grant of concession rates on the transport of fertilizers fuel, fodder, milch cattle and other necessaries of agriculture. They further suggested improvement in the rates for the transport of agriculture machinery and their raw materials. These recommendations of the Agriculture Commission were accepted by the Government.

The Acworth Committee recommended the formation of Rates Advisory Committee consisting of a President and two members, one representing the interests of the commercial community and another the interests of the railways. This Committee was formed in 1926 for carrying on investigation into railway rates and the complaints against them. It is purely an advisory body and the Government may or may not accept its findings. The Wedgwood Committee recommended that the procedure of the Committee should be amended so that the business may not take unnecessary time, greater publicity should be given to its findings and the Government should ordinarily refer all complains concerning rates to it. Unless there is a body invested with mandatory powers there is little chance that an advisory body will be in a position to safeguard the interests of the trade and industry.

Economic effects of railways:—Railways have been a great factor in bringing about revolutionary changes

in the economic conditions of India (1) Railways have broken the isolation of the villages. The interior has been opened and the agriculture has been commercialised to some extent. They have widened the markets of the agricultural products. (2) In the matter of famine relief railways have proved invaluable. Efficient famine relief would have been impossible without quick transportation facilities. They carry food to the affectd areas with great promptness. (3) Railways give impetus to the general economic advancement of the country. They bring about equalisation of prices in different parts of the country and bring Indian prices in confirmity with the world prices. (4) Railways have been a great instrument in developing large scale manufacturing industries as they enable the manufacturers to get raw material, coal, and machinery etc. (5) Railway in itself is a great industry which employs a large army of workers, technically trained men, engineers, and educated classes. (6) Railways have been the main cause of developing Engineering, timber growing, and other industries in India. (7) They have increased the mobility of workers and thereby made possible a more even distribution of population. (8) They are responsible for the growing external and internal trade of India. (9) Railways benefit the Government finances in two ways. They contribute to the general revenues directly. They increase the wealth of the country through encouraging industries and this increased production of wealth enriches Government in the form of inincreased revenue from taxes. This is their indirect contribution.

But Railways have not been an unmixed blessing to India. They have been responsible for rapid destruction of our indigenous industries which might have survived otherwise bringing about ruralisation of the country. The increased ruralisation has forced large numbers of people specially artisans to fall back upon agriculture

These provisions have vested almost unlimited powers of control in the hands of the Governor-General acting in his own discretion. In a way Indian representatives will have no say in the management of Indian Railways.

ROAD TRANSPORT.

It has already been mentioned that East India Company being mainly a commercial body grossly neglected its duty to develop road system in India. In those times there was no special Public Works Department to look after the roads but they were placed in charge of Provincial Military Boards. Lord Dalhousie realised the great need of roads and therefore he adopted a more vigorous road policy and for this purpose along with the central Public Works Department, Provincial Public Works Departments were established in 1855 which replaced the old military boards. Another reason why road development became increasingly necessary was the rapid development of railways. Railways needed roads to feed them and not to compete with them. Even to-day this need is not fully satisfied. In order to be feeder of railways metalled roads should be at right angles to the railway lines well supplied with bridges and they should not run parallel to railway lines.

Indian Road System :—In India there are four great trunk roads which lie diagonally across the country and all subsidiary roads are connected with them. The most important of these truck roads is the Grand Trunk Road which connects Khyber and Delhi with Calcutta. The other three trunk roads connect Calcutta with Madras. Madras with Bombay and Bombay with Delhi. These four roads account for 5,000 miles out of nearly 83,000 miles of metalled road in British India. In southern India the number and the character of subsidiary roads is very satisfactory. Madras has the largest mileage (22,000 miles) of metalled roads in India, Rajputana, Sind, parts of Punjab, Orissa and Bengal are the worst served

regions. In Bengal there are many rivers and the rainfall is very heavy, and therefore the cost of constructing roads is high. In other parts aridity, sparseness of population, lack of suitable road materials are some of the obstacles that have prevented rapid progress. Besides metalled roads British India possesses nearly 2,25,000 miles of "kutcha" roads which are quite serviceable for all kinds of transport in dry weather. But during rainy season most of them become unfit for wheeled traffic.

Thus on the whole India has a little more than 3 lakh miles of metalled and unmetalled roads which are quite insufficient considering the vastness of the country and its requirements. Recently due to increased use of motor vehicles in India more roads were constructed. But much more remains to be done in the road development. This deficiency of roads is keenly felt in rural areas in respect of smaller feeder roads connecting with the trunk roads or railway line. Many villages are inaccessible and are not at all served by any means of communication.

Apart from the insufficiency of roads in India their upkeep is not satisfactory. During the recent years the roads in India have deteriorated. This deterioration has been most marked in the case of roads maintained by local bodies because their resources are very poor over and above this difficulty there is another problem connected with the road transportation which has arisen during the recent years *i.e.* the motor traffic. The rapid development of motor bus traffic all over India has created new problems of road construction and maintenance. On the one hand motor transport requires improved surfaces and on the other hand its development is damaging the surfaces that already exist. Finally the lack of bridges and crossings is a serious obstacle to traffic of all kinds.

The desirability of developing the Road System of India :—The great need of developing the road system

of India can hardly be emphasised. A net work of good roads joining the country side with the commercial and Industrial centres is the prime need of the country. (1) Good roads will diminish the cost of marketing of agriculture produce thereby the cultivator will be in a position to secure good prices for his produce. Defective communication leaves the cultivator at the mercy of the local dealer who alone has at his command enough pack or cart bullocks to undertake the transport of produce to the nearest market. The Agriculture Commission very much emphasised the need of road development because bad communications impose a constant strain on the health and stamina of the draught animals and seriously reduce their efficiency. To a very great extent the prosperity of the rural areas is dependent on good communications. (2) If roads are developed they will assist the development of industries connected with the preparation of agricultural produce for export or internal use. Developed communications will facilitate the decentralisation of industries and thereby solve some of the problems which crop up in congested industrial centres such as housing problem etc. (4) The social and political effect of good communications specially on the rural population is not less important than the economic social and political progress is advanced by intercourse and retarded by isolation. Road development is specially desirable because it will make for the economic, social, and political advancement of the rural population on which the future of the nation so much depends. Countries like U.S.A. and Denmark owe their prosperity to a considerable extent to the developed road-system. For Post-War Road development Government has prepared a Plan which will cost Rs. 450 crores.

The Road Development Committee :—Rapid growth of motor traffic after 1920 has greatly revolutionised the problems of transport. There was a phenomenal rise in the road motor traffic and the question of construc-

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can be despatched at any time convenient to the sender and the motor's give quicker delivery as they are not subject to the usual restrictions on goods trains as regards loading, unloading, marshalling and speed. In railways goods are so carelessly handled that there is a great loss through damages and breakages. Pilfering is also far too common in them. There is no risk on the sender as it happens in the case of railway. Often the owner of the goods can accompany the goods on the same motor truck. As far as passenger traffic is concerned for short distances it is more convenient than railways because motor lorries can adjust their timings which suit the public better than railways which have to fix their timings keeping in view the requirements of vast tracts and long distances. Lastly there is no insulting treatment in the case of motor-bus. The railways in India have become unpopular with the masses because of their indifference towards third class passengers. During the war year (1939—1945) on account of shortage of petrol motor-bus traffic ceased for all practical purposes and the masses were forced to fall back on the railways. Their suffering, inconvenience, and humiliation was very great indeed. If railways did not learn to be more courteous and considerate towards third class passengers they are bound to lose.

The Benefits of Motor Transport:—Motor has provided the country with an alternative means of transport which is cheap and convenient. It has opened undeveloped areas which act as feeders to railways. The country-side has been specially benefited by the motor transport. It has given rise to a large number of subsidiary industries and it has given employment to a large number of people. A large amount of Capital has been invested in this industry. It yields very handsome revenue to the Government in the form of rates, taxes, customs, and petrol duty. It was due to the competition of motor-bus that railways kept their charges low and gave

other facilities. The Indian people owe much to motor-transport otherwise railways in India would have been too unmindful of their requirements and conveniences. And this industry had to face all along Railway competition, a heavy duty on petrol and other difficulties.

The View-point of Railways :—When the railway began to feel the competition of motor-bus transportation they began to cry for Government protection on the following grounds. (1) Railway is a National Industry more than 900 crores of capital is invested in it and it is owned by the State as such if railway lose that will be a loss to tax-payers and the country as a whole. (2) The railways also point out that they have to lay and maintain their own permanent tract at a heavy expense whereas the motor transport uses the road provided for them from public revenue. (3) The motor-bus takes away the cream of the goods traffic. The railway rates are based on the principle of "Freight which the traffic will bear." Accordingly heavier and less valuable goods are charged at a much lower rate and the more valuable goods are charged at a higher rate. The motor truck transports the valuable goods and does not pick up the inferior traffic. Therefore if motor trucks are allowed to carry on this unjust and unhealthy competition against the railway the later will have to change their rate policy to the detriment of the trade.

It is not correct to say that motor transport is using the roads without paying for them because it yields a huge revenue of more than 10 crores of rupees to the Government, and moreover only motors are not the users of the road. Of course railways are right in complaining that motor buses pick up the cream of the traffic leaving inferior traffic for the railways and that by over-loading can quote cheaper rates. The argument that railways are owned by the State and therefore they should be pro-

tected and the Motor transport should be penalised does not hold good as both are ultimately owned by people.

Mitchell and Kirkness Report:—In 1932 a Technical Committee was appointed to enquire into the extent of road motor competition and to collect other facts for securing a co-ordinated development of road and rail facilities. The following were the main findings of the Committee.

1. The development of metalled road system in India has been from the trunk outwards, and the trunk main, and feeder metalled roads have frequently been overtaken by the subsequent construction of parallel railways.

2. Nearly 48 p.c. of the railways have metalled roads parallel to them and within 10 miles. In view of this any scheme of road improvement should be more for improving feeder services than for the further construction of trunk roads running parallel to the railway system.

3. The road system in India has been rather unbalanced owing partly to its having become unmanageable by the local bodies and partly owing to the absence of a comprehensive plan. A comprehensive plan of road development is necessary, with the question of adequate provision for future maintenance placed in the forefront and with a view to linking the more important villages with the proper road system.

4. There existed considerable difference in the degree of external control over railway and road transport. The railways were handicapped in their competition with road motors because of unequal conditions of working and the two means of transport should be placed as far as possible on an equal footing in respect of external control.

(5) As a result of motor competition class I railways were losing about Rs. 2 crores per annum (1932). The bulk of this competition was within a zone of 1 to 50 miles and the light railways had been most severely affected. The carriage of goods by motor services has not as yet developed to an alarming extent. In future the competition was likely to increase in range as well as in intensity.

6. In certain cases motor buses provided definitely superior services and it is not desirable to deprive the public of such services.

With regard to the future policy of railways in dealing with motor competition the Committee pointed three possible courses, namely :—

(1) Zoning of short distance traffic and gradual withdrawal of the railway from competition. (2) Active counter-competition both in respect to improvement in facilities as well as through reduction of fares and rates. (3) And the operation of motor transprot by the railways.

In conclusion the Committee recommended the creation of a Central Board of Communications to deal with all classes of transport.

In pursuance of the recommendations of Mitchell-Kirkness Committee Report the Government of India convened a general road-rail conference. The road policy of the Government of India has been largely shaped on the basis of discussions held in that conference. The principal conclusions arrived at in the conference were as follows :—

(1) The general public interest demands co-ordination of the efforts of various transport undertakings so that uneconomic competition may be reduced.

(2) Certain classes of railways may be given the power to run motor services.

(3) The number of motor vehicles licensed to ply for hire should be restricted and greater control should be exercised over road motor services in the interest of safety and convenience.

(4) Every encouragement should be given to the development of rural motor services even to the extent of granting monopolies for limited periods.

(5) That suitable machinery should be established at the centre and in the provinces to ensure intelligent co-operation and adequate co-ordination between all forms of transport.

According to the suggestion of the conference railways were allowed to run motor services in conjunction with rail transport. A Transport Advisory Council consisting of the ministers in charge of roads in various provinces or their representatives with one or two representatives of Central Government was also formed in 1935. Though the conclusions of the Council are purely advisory and are not binding on any province which does not choose to ratify them, there is no doubt that this Central Transport Advisory Council will help greatly in bringing about uniformity in all-India transport policy and also in the working and taxation in different parts of India.

Wedgwood Committee on Rail-Road Co-ordination:—In 1937 the Wedgwood Committee was appointed to examine the question of rail-road co-ordination. The following are the main findings of the Committee:—

(1) The regulation of road transport by provincial governments is inadequate and the conditions are very bad. This policy of the Provincial Governments encouraged an inefficient type of road transport whose competition will cripple the railways without providing a trustworthy service on the roads.

(2) The Committee was of the opinion that proper regulation of road transport is necessary not only in the interest of safety but also to guide its own development on sound and economic lines. It is also desirable that railways should be protected against unfair and uneconomic inroads by a new rival.

(3) The regulation of roads should be carried out by Provincial Governments in accordance with uniform principles enacted by the Central Government. No restrictions, however, should be imposed on road transport which would unfairly hamper its development.

(4) Measures of regulation should be common to buses and lorries in the interest of public safety and should cover the following:—fitness of vehicles, prevention of over-crowding and over-loading, speed limits, limitation of hours of duty, and fitness of driver. Passenger services should be regulated by a system of route-licensing and *time-tables* and fares should be fixed. The Committee recommended a system of regional licensing for goods vehicles and suggest statutory provision in order that goods rates may be regulated at some future date. The same system of regulation should be applied *to* private lorries as to public lorries.

(5) Provinces should aim at uniformity in the taxation of motor vehicles.

(6) The Committee strongly recommended that railways should participate in road-transport and therefore the Committee proposed that railways should have full powers to run road services, to invest money in or enter into working agreements with road transport undertakings and to arrange road transport services through contractors.

Regulations of Motor traffic :—The Government also appointed a Motor Vehicles Insurance Committee and in the light of its report, Wedgwood Committee report

and the opinion of Transport Advisory Council the Government framed a bill in 1938.

The bill (Motor Vehicle Bill) had two main parts (1) regulating, (2) co-ordinating. According to this bill the control of transport vehicles for hire or otherwise was to be in the hands of transport authorities constituted for specified areas within the province, and that for the purpose of co-ordination there was to be constituted a transport authority for the province. All motor vehicles were to be covered by a permit issued by the transport authority of an area, and the holder should be required to observe certain conditions such as satisfactory maintenance of vehicles, the observance of prescribed limits, and the avoidance of over-crowding and over-working the drivers. The bill also provided for compulsory insurance of motor vehicles in respect of third party risks.

The bill gave rise to controversy but there is no doubt that regulation of road transport is necessary in the interest of people. However due to the war the bill could not be made effective and nothing came out of it.

Road Finance :—Roads are a provincial subject. Upto 1929 all provincial roads were financed from the general revenues supplemented by provincial grants. The Road Fund was formed in 1929 and money is being distributed to the provinces for the purposes of construction, reconstruction, and improvement of the roads. The money from the Road Fund was not available for the purposes of the upkeep of the roads. The Road Fund was created to provide additional funds to the provincial and local bodies for roads. They were, however, supposed to keep up their normal expenditure on roads as before from their revenues. Since 1929 due to financial difficulties the Provincial Governments and local bodies could not spend the same amount as before from their revenues. Therefore feeder roads were neglected as the money avail-

able from Road Fund was being spent only on inter-provincial and inter-district roads. Therefore the Government decided that 25 p.c. of the money available from Road Fund must be spent on feeder roads. They have also laid down that provinces must not spend more than 25 p.c. of the Road Fund money for the purposes of roads which compete with railways.

The Caravan Routes :—Although India has an extensive land frontier of more than 6,000 miles long, the volume of trade is very small. Dense forests, high mountains, and deserts have so long hindered the progress of the land frontier-trade. There is no through railway line from India to her frontier countries. Yaks, mules, camels and ponies are usually employed in maintaining trade relations with Iran, Afghanistan, Central Asia, Tibet and Nepal. There are five main land routes which connect the north-west India with Iran, Afghanistan and Sinkiang.

(1) From Chaman along the Khojak-Pass to Kandhar and Herat.

(2) From Quetta to Zahidan on the Iran Baluchistan border by a branch line of N.W. Railway; thence by Caravan route to Iran.

(3) From Peshawar along the Khyber Pass (3370 ft.) to Jalalabad the Khybar Pass is only 30 miles long.

(4) From Attock in the Punjab to Kashgar (Sinkiang) *via* Chittral and Hindukush.

(5) From Dera-Ismail Khan along the Gomal Pass (7,500 ft.) to Kalat and Kandhar.

There is another route which goes from Leh in Kashmir to Tibet and Sinkiang. This is one of the hardest routes in the world as it includes the Karakoram Pass (18,000 ft.)

Communications with Tibet are maintained through Darjeeling, Naini Tal, and Bettia.

The famous Burma China road if properly developed will become a great highway of commerce joining Rangoon to China, and another road constructed by Chinese during the war across the high mountains will bring China very much nearer to India and Chittagong will become the important port sending goods to China.

WATER TRANSPORTATION.

Indian Shipping :—India for centuries had been a sea-faring nation. Her ships sailed across the many seas. Her people colonised and civilised distant lands. Alexander's retiring forces used a huge fleet of 2,000 vessels for their sea voyage. In the reign of Akbar according to the "Aine-Akbari" 40,000 vessels were engaged in the commerce of the Indus alone. In oceanic traffic and ship-building, India was second to none. Marco-Polo has paid tributes to Indian ship-building. When Vasco-da-Gama first reached India he found some local seamen who knew more about navigation than he did. Ships built in Indian dockyards were used by the sailors of other countries.

Indian ships continued to occupy an unequalled position down to the nineteenth century. But the British shipping interests grew very zealous of Indian ships. They were very influential people. So much so that they possessed enough of the shares of the East India Company and thereby pressed the Company to help them in destroying the Indian shipping interests.

The British Government fully supported the efforts of the British ship-owners to grow stronger and to keep off all competitors and to destroy rivals. To give a death-blow to Indian shipping interests Navigation Laws were passed by the British Government. These Laws made it impossible for ships built in Indian Dockyards and

manned by Indian crews to carry goods to British harbours. Thus the Indian ship-building industry declined in India because at that time India mostly carried on trade with Britain only.

Moreover the introduction of iron built ships also deprived India of her differential advantage in respect of plentiful supplies of excellent timber. The rapid improvement in naval architecture and the introduction of mechanised sea transport combined with the jealousy of the British shipping interests and the operation of the British Navigation Laws against India ruined the Indian shipping totally.

Position of Shipping in India to-day:—India has a coast line of about 4,500 miles. About 70,00,000 tons of rice, timber, coal, salt, oils and other cargo are carried annually in the coastal trade of India. Over 15,00,000 passengers are carried on the west coast of India and a large number of persons used to go to Burma from India. The overseas traffic is of 25 million tons of cargo and about 2 lakh passengers per year. The value of overseas maritime trade fluctuates from year to year but it amounted roughly above 400 crores of rupees during pre-war days. Out of this total traffic only 2 per cent. is in the hands of Indians. This means that Indians are devoid from entering highly remunerative branch of business and the country is a great looser. The total shipping earnings have been estimated at Rs. 57 crores of which more than Rs. 50 crores is carried away by foreign steamship companies.

Reasons for the backward position of Indian shipping:—The reason why Indian shipping companies could not grow and take a share in the sea-borne trade of India is that a partial monopoly of coastal trade of India has been established by a 'conference' of a few big British Navigation Companies and they have made the position

of Indian shipping companies miserable. These British shipping concerns charge an unreasonably high freight and make very high profits. The poor Indian consumer suffers. Moreover there is a great disparity between the charges on goods conveyed between India and foreign countries and goods shipped from one Indian port to another Indian port. This handicaps Indian goods in transmission in comparision with goods from and to foreign countries, and neutralise any advantage which an industry might enjoy in its own country due to its being situated near the consuming market. But the greatest evil arising out of this control of the coasting traffic by the foreigners is the effort of this conference to kill and destroy all Indian shipping enterprises in their infancy. The methods which this conference employ to kill the Indian shipping enterprises are those of cut-throat competition. The two most common methods which they use are (1) the deferred rebate system (2) rate wars.

Deferred rebate, rate wars etc:—The deferred rebate system is as follows:—The shipping companies issue a notice to shippers informing them that if at the end of a certain period they have not shipped goods by any vessels other than those dispatched by the members of the Conference, they will be credited with a sum equivalent to a certain percentage usually 10 p.c. of the aggregate freights paid by them on their shipments during that period, and that this sum will be paid over to them, if at the end of a further period (usually 6 months) they have continued to ship their shipment through vessels belonging to members of the Conference. The sum so paid is called "deferred rebate". This system is designed to ensure the continued loyalty of the shipper under the circumstances the shipper has no freedom to ship his goods through rival vessels who do not happen to be the members of the Conference. The Conference thus kills any indigenous shipping enterprise. The Fiscal Commission strongly

recommended that legislation should be made on the lines of other countries. This deferred rebate system endangers the very existence of the Indian shipping and therefore it is necessary that State should subsidise ship-building industry in India and the coastal trade should also be reserved for Indian shipping concerns as other countries have done.

The Conference dominated by foreign shipping interests have repeatedly put forward the objection to this demand by putting forward the fallacious argument that the "rebate system" acts equally against new competitors of every nationality and not only against those of India. The competitors of other nationality can count upon the support of their respective governments and the coastal traffic of their country is reserved for them.

As far as British shipping companies are concerned their position is very strong and unchallenged. Some of them receive Government patronage and help in the form of mail orders and the carriage of Government stores. No Indian shipping company has so far been patronised by the State.

Deferred rebate system is not the only deadly weapon in the hands of the foreign shipping combinations, they also start a rate war by under-selling the Indian rivals in order to kill them. Once their object is secured the rates are again raised to a higher level. This is the reason why almost all attempts made by Indian enterprise during the last 40 years to enter this lucrative field have miserably failed. Most of the companies were forced to liquidation. There is still another handicap under which the Indian shipping concerns labour. The British and European Insurance Companies put even the first class ships owned by the Indian shipping companies into second class and thus charge higher premiums solely because they are owned by Indians. Besides these defects foreign shipping com-

panies neglect the comforts of the deck passengers on the coastal ships. Moreover the Indians are seldom given any higher post nor the foreign shipping companies give any facilities to Indian youngmen to qualify themselves for these jobs. The war (1939) opened an opportunity to Indian youths in this line and those trained on warships may form the main strength of the Indian mercantile marine if ever developed in future.

Ship-Building Industry in India:—The Indian ship-building industry is also in an undeveloped stage. It is only in small ships that Indian yards can compete with non-Indian ship-builders because the cost of bringing such vessels to India is higher in proportion to their price. Recently the Scindia Steam Navigation Company under the chairmanship of Sir Walchand Hirachand has established a ship-building yard at Vizagapatam. In 1937 the Company approached the Government to give it a site for a ship-yard at Calcutta. Calcutta is admirably suited for this purpose with coal, iron, skilled labourers and dry docks etc., within its easy reach. But the Port Commissioners raised objections and later on in 1940 the Company was offered a site at Vizagapatam. The Government in India and Britain, even after the outbreak of war, continue to be unhelpful. The Company was faced with many difficulties in getting machinery. For the adequate defence of India there was the need of a ship-building industry. But the Government remained unresponsive. Now with the opening of ship-building yards at Vizagapatam the foundation of Indian ship-building is well laid.

The demand for an Indian Mercantile Marine: After the first Great War (1919) Indian business men and statesmen began to demand the establishment of a mercantile marine for India. They argued that it will remove all those handicaps mentioned above under which the Indian ship-owners, shippers and passengers are labouring.

it will prove a second line of naval defence in times of war. Moreover the coastal and sea-borne trade of India is sufficiently large to keep an Indian mercantile marine busy. India's dependence on foreign shipping companies for her foreign trade is an economic weakness. During the war India had to suffer incalculable inconvenience due to extreme shortage of tonnage. Besides these advantages the development of Indian Mercantile Marine will open new avenues of employment to Indians. Navigation, marine engineering, and insurance are very profitable branches of business but to-day their doors are practically closed for Indians. The representatives of foreign shipping companies have repeatedly argued that Indians have no aptitude or liking for a sea-going career. This is quite untrue, the record of Indians in the past belies it. They have never been given any chance in the past and they were labelled as incompetent. The war did open an opportunity for Indians and this myth will be soon exploded.

The Mercantile Marine Committee (1923):— In pursuance of a resolution moved by Sir P.S. Sivaswamy Iyer in the Legislative Assembly and adoped by it, the Government of India appointed the Mercantile Committee in February, 1923. The Committee's report was unanimous except the dissenting minute from the representative of British interests.

The Committee recommended maintenance by the Government of a Training ship for the training of Indian youths. They further recommended compulsory employment of Indians, so trained as officers by the companies engaged in our coastal trade. A far-reaching scheme for Indianising the coastal marine in a period of 25 years was suggested by the Committee. Ship-building was to be revived and encouraged by payment of suitable bounty by the Government.

The Government only accepted the first recommendation of the Committee and set up the "Dufferin" ship

for the training of Indian youngmen. And the other recommendations were never adopted. In fact the then Commerce Member Sir Charles Innes emphasised every point of the dissenting minute of Sir Arthur Froom, the representative of British interests. He played on provincial jealousies by saying "As the principal Indian shipping company has its headquarters in Bombay the monies of Burma, Bengal and other provinces will be drained into Bombay. The Government stoutly resisted both licensing of ships engaged in the coastal trade with a view to Indianising them, and encouraging with bounties etc., the ship-building industry in India.

The Bill for reserving coastal traffic for Indian shipping :—When the Government refused to implement the recommendations of the Mercantile Marine Committee Mr. K. C. Neogy and later Mr. S. N. Haji (in 1928) introduced in the Legislative Assembly Bills to reserve the coastal traffic in India to Indian vessels. Mr. Haji's Bill sought to transfer in 5 years the controlling interest in the tonnage engaged in the coastal trade to Indians. The principal of reservation of coastal traffic contained in the bill has been adopted by practically all the nations and therefore it was a just demand of Indians. The bill roused angry cries among the British shipping companies. The Government of India and British interests were on one side and the Indian nationalist opinion was on the other. In the Assembly debate on the bill Sir George Raine summed up the Government of India's point of view in the following peroration "We urge that it is economically unsound and is not in the interests of India. We urge that it is likely to be ineffective owing to the existence of number of non-British ports on the coast of India. We urge that it is unjust to Burma. And finally—and this with me is the most vital argument—the bill is open in principle as involving both expropriation and racial discrimination, and we apprehend that the later

feature will have most unfortunate repercussions in South Africa and other British Dominions". The arguments advanced by the Government were most unconvincing. Almost every country had promulgated such laws and as such it was India's moral right to adopt the same methods for developing her mercantile marine.

The principle underlying Mr. Haji's bill for reservation of coastal traffic to Indian vessels was accepted by the Legislative Assembly by 71 votes to 46.

The report of the Select Committee to which the bill was referred suggested certain alterations. But it was postponed for a time to enable the Government to try out once again the policy of "negotiation, co-operation, and goodwill". Lord Irwin summoned a shipping conference but it was a complete failure due to the uncompromising attitude of the vested British shipping interests. This clever move of the Government saved the British shipping interests. In 1930 the Congress members withdrew from the Assembly and with their exist the bottom was knocked out of the bill. When normal times returned after 4 years the British interests made their position impregnable.

The Government of India Act (1935) takes away the power from the Indian legislature of fostering Indian shipping. According to the Section 115 of the Act "No ship registered in the United Kingdom shall be subjected by or under any Federal or Provincial Law to any treatment affecting either the ship herself or her master, officers, crew passengers or cargo which is discriminatory in favour of ships registered in India."

Mr. Haji also introduced in February, 1929 a bill in the Assembly for the abolition of the deferred rebates system in Indian coastal shipping. It was complementary to the coastal Reservation Bill. It aimed at a fair distribution of business among the Indian shipping companies

once coastal trade was reserved for them. The passing of this bill would have meant the end of all shipping combinations whether composed of non-Indian companies or Indian companies or both. But the Commerce member of the Government of India urged that the bill should wait at least till the house had decided one way or the other on the coastal reservation bill. Thus this bill also had the same fate. Henceforth according to Section 115 Government of India Act no discrimination will be possible against British concerns operating in Indian coastal waters.

In 1937 Sir A.H. Ghuznavi again introduced a coastal Traffic Bill which was referred to the Select Committee. The bill did not discriminate between British and Indian shipping. Its object was only to regulate unfair competition in the coastal waters in the shape of rate-cutting or the grant of rebates. The bill empowered the Central Government to fix minimum rates of fare freight for the carriage of passengers and goods charging of rates lower than those fixed by the Central Governments was to be made an offence. But the Government opposed this bill as well on the ground that it was unnecessary and impracticable, its enactment would encourage rapid multiplication of shipping companies.

In 1939 the European war broke out. It was believed that at least the war needs of the Government would compel them to forsake their policy of indifference towards Indian shipping and favouring British shipping. But no such change took place in the policy of the Central Government.

Soon after the war was declared ships began to be empanelled for active service. Ordinances were also issued fixing the freights and fares. But they applied to Indian shipping. The two notifications of September, 1940 controlled the movements of ships on Indian Register and deprive them of the freedom to fix fares and freight

rates as they chose. The notifications did not apply to ships on the British Register nor to ships on the Indian Register owned by Britishers these ships were free to go where they liked and charge such rates as they pleased.

Inland Water Transportation :—From the earliest times the inland waterways were the great highways of trade and commerce in India. Ganges, Brahmaputra and Indus facilitated the transportation of merchandise in northern India. With the development of Railways rivers have fallen into misuse and their importance declined. The combined mileage of the navigable rivers in India is 26,000 miles.

India has three great rivers which serve, even to-day as arteries of trade and travel, besides large number of minor streams. The Indus is 1,800 miles long and is navigable for 1,000 miles from its mouth. The shifting character of its banks and sudden floods during the rainy season are responsible for the absence of important towns on its course.

The Ganges is the most important river of India. For about 500 miles from its mouth, the river maintains nearly a uniform depth of 30 feet, and therefore the steamers can safey move upto that distance, although country boats proceed as far as Hardwar "the Navigation in Ganges is magnificent and offers probably one of the finest spectacles of its kind in the world." With the development of Railways the Ganges has lost much of its importance as a highway of commerce.

Brahmaputra is navigable by steamers throughout the year and steamers run from the mouth to Dibrugarh about 800 miles from the sea. There are certain drawbacks in the river which make navigation dangerous. (*a*) formation of new islands, sand banks and shoals, (*b*) the presence of a very strong current during the rains.

The 'Surma' a tributory of the Brahmaputra is navigable as far inland as Sylhet.

The rivers of the Peninsular India are navigable in their lower courses only during the rainy season.

There are only a few navigable canals in India, the most notable being (1) the circular and Eastern canals in Bengal. (2) The Ganges canal running from Hardwar to Cawnpore (3) the Buckingham Canal running parallel to east coast in Madras and (4) the Orissa canal coast. Conditions for constructing canals are very favourable in the coastal regions of Bengal, Orissa and Madras. "In Eastern Bengal particularly there is considerable scope for connecting the canals so as to improve the navigation facilities in connection with its great river system."

Water transport is cheaper than road or railway transport because waterways provide ready made high ways. The need for waterways in India is very great indeed. Though there are some physical difficulties yet much improvement can be made in the existing waterways of the country. The development of waterways would not only remove the congestion of traffic from railways, but would also open up new areas whose products cannot be at present moved because of very high railway freights. The breakdown of the railway system in India during the war (1939) and the great inconvenience which the civil population had to face brought home the need of developing the waterways in India. Had the waterways in India not been neglected by the Government the incalculable hardship which the country had to face on account of breakdown of road and railway transportation systems would have been relieved to a considerable extent.

Sir A. Cotton of great irrigation fame had stated before a parliamentary committee, "My great point is that what India needs is water carriage, that the railways have completely failed, they cannot carry the required quantities, they cannot carry at the required price, and they cost the country 3 millions a year to support them.

The system of board canals would not have cost one-eighth that of railways, they would carry any quantities at nominal prices and at any speed, and would require no support from the treasury and would be combined with irrigation."

He put a complete scheme for developing the water transportation in India. The principal lines be aimed at constructing were four (1) From Calcutta to Karachi up the Ganges and down the Indus. (2) From Coconada to Surat up the Godawari and down the Tapti. (3) A line up the Tumbhadra to Karwar on the Arabian Sea. (4) And a line up the Ponang by Palghat and Coimbatore. But the interests involved on behalf of the railways proved too strong for him and Government did not listen to his advice. The future National Government of India can no more neglect this important means of transportation.

AIR TRANSPORT

Although there has been extremely rapid developmetn in this form of transport in the European and American countries India is still very far behind. During recent years just before war India used to get the benefit of French and Dutch Air services. The Imperial Airways also used to maintain air service between London and Calcutta which was stopped during war. There were a few Aero-clubs to train future airmen. During the war a large number of youngmen were trained for Aviation and therefore it is hoped that after war aviation will rapidly develop in India. At present there are 3 Aviation Companies in India. (1) Tata Sons Ltd. (2) Indian National Airways Ltd. (3) and the Air Services of India Ltd. A very recent feature of Indian Aviation is the start of an aircraft factory at Bangalore due to the efforts of Mr. Walchand Hirachand. In future India will increasingly utilise air services for commercial purposes and thereby her trade will increase,

CHAPTER XXIX.

UNEMPLOYMENT.

Unemployment has been a most nasty problem with which the different countries of the world had to deal during the last few decades. India was no exception and had to face this problem in its acutest form. The statistics of employment and production etc., are very defective in this country which makes it difficult to realise its true significance. No data are maintained of industrial establishments which do not fall in the category of factories and likewise there are no correct estimates of the value of produce or income from agriculture industries or other occupations. According to a rough estimate before 1939 the number of unemployed was 40 to 50 million and the total number of persons who could not enjoy sufficient food, clothing, and shelter, even judged by the low Indian standards, cannot be possibly less than 10 crores.

Unbalanced Occupational Structure:—In India the proportion of population depending for its living on agriculture and its allied and subidiary occupations is about 73 p.c. of the total population of the country. While the corresponding percentages in U.K. have been 10% U.S.A. 22 p.c., Germany 30.5 p.c., and France 38 p.c. This proves beyond doubt that the pressure of population on land is excessive in India. Even in France and Germany where agriculture and industries are more evenly balanced the percentage of population depending upon agriculture is nearly half of India.

The percentage of population which derives its support from industries in India is less than 10 p.c. while in U.K. it is about 40 p.c. in U.S.A. 30 p.c. Germany 38 p.c. France 30 p.c. Japan 20 p.c. This disparity between India and other advanced countries is due to the

fact that in those countries the percentage of population depending upon agriculture went on decreasing on account of the policy of industrialisation, while in India it has gone on increasing owing to the absence of such a policy. Increase of numbers in agricultue above a fixed percentage leads to a lowering of the general level of income of the population. Even a small increase in the number employed in industries is of much more value to a nation than a large increase in the less profitable occupation of agriculture. There is a limit to the population which can be kept profitably employed on argriculture in any country and if the number goes beyond that limit the income falls rapidly. Many countries which were formerly agricultural are now industrially developed and as a result have increased their income many times (Japan, U.S.A. and Canada).

In India the true cause of unemployment is that in an industrial and machine age, the country is becoming increasingly rural. The source of all income is production and service—production from industries and agriculture and services through trade and other occupations. In any effort to increase production care should be taken to develop those industries which are more profitable. Agriculture is a necessary and very important industry in every country but no country in modern times has grown rich from agriculture industry alone. This is why every progressive country in the world is making efforts to industrialise.

Unemployment is caused through insufficient and unbalanced occupations, through deficiency in number, or strength, or both; of farms, factories, shops and jobs in other subsidiary professions and occupations. In India all these causes are working in their most violent form. There is excessive dependence on agriculture, lack of industrial establishments, and consequently less shops,

and less jobs. This is why India is virtually in the grip of acute unemployment.

As has been pointed out elsewhere on account of excessive concentration of population on agriculture, holdings are too small which do not give full employment to the cultivator and his cattle, income is low, and poverty conditions are aggravated. This heavy pressure of population on land has resulted in a growing landless class among villages which gets occasional work on the fields at sowing and harvesting season and in the rest months of the year ekes out its living in a most miserable manner by digging grass, collecting fuel, hiring out his labour in the neighbour towns by temporarily migrating from the village. Their condition is extremely depressing and they live on the verge of starvation. They are in fact more than half unemployed and their lot is the most pitiable. This excessive pressure of population on land is also mainly responsible for migration of increasingly large numbers of able-bodied persons from rural areas to urban and specially industrial centres. But the rapidity with which this economic pressure is displacing rural population from the land does not correspond with the capacity of industrial centres to absorb them. In fact industrial centres are overcrowded with workers and the factories have no capacity to absorb them. Already industrial unemployment has begun to be felt quite seriously in India. Thus the problem of unemployment in general is closely associated with the industrial backwardness in India.

Middle class unemployment:—But the problem which has been felt very acutely during the last two or three decades in India is that of middle class unemployment. In other words the unemployment of educated youngmen. Educated middle class unemployment in recent two or three decades has assumed alarming proportions. In extreme cases even the graduates are known

to have served on posts where no educational qualification is needed for instance a police constable. Mr. S. T. Hollins while giving his evidence before the United Provinces Unemployment Committee remarked: " Again quite a large number of youngmen who have passed the school leaving certificate, and Intermediate Examination and even a few who have passed the B.A. Examination enlist themselves as police constables every year though no educational qualification is necessary". He further said "There is undoubtedly general unemployment in all classes and among all occupations. Hundreds of applications from literate and illiterate men from rural areas and from towns are received for all classes of work. Literate posts are insufficient for those who have been educated and literate men are accepted in a large number for posts in which literacy is not required. Illiterate persons are thus, to some extent unable to get work." Formerly foreign degree holders used to secure very decent appointments in India but their supply has also increased to such an extent that their value in the employment market is very low and some of them are not in a position to get employment. Mr. N. C. Mehta, I.C.S. in his evidence before the same committee said, "I may quote concrete instances to prove the extent of unemployment among the English educated classes. It was in 1931 or '32 that 5 or 6 vacancies of sub-registrars (drawing Rs. 60 per month) had to be filled up and not less than 700 applications were received by me without the posts having been advertised at all. The applications included a London Ph.D., scores, of M.A., LL.B.'s and first and second class graduates with excellent University qualifications. Even youngmen who secured technical training in foreign countries or in Indian technical or Engineering colleges had to face the problem of unemployment. Instances can be multiplied. It is a common day experience that even for a pitty job of a clerk hundreds of graduates

apply and hanker about. Though with the second great war in 1939 a vast opportunity for employment was opened and for some time unemployment both among literate and illiterate youngmen disappeared. No body could remain unemployed such was the great demand for war, purposes. Yet it was a temporary boom in employment market and the slump was bound to come with the cessation of hostilities unless it was followed up by rapid industrialisation of the country."

CAUSES OF UNEMPLOYMENT.

(1) **Economic depression :—**After the hostility ceased in 1919 in first great war world had to face a very violent economic depression, India likewise had to face the depression. Armies were demobilised, a large number of men employed as clerks and combatant branches were thrown out of employment and could not be employed elsewhere. Moreover as economic depression grew more serious after 1929 even normal employment in Government and public bodies was not available and retrenchment resorted to in all branches and direction. The business concerns as well could not give employment to the educated middle class and with the growing depression their condition became distressing.

(2) **Defective Educational System :—**Another important cause of unemployment among the educated is the defective system of education, which takes no notice of the industrial needs of the country. The existing system of education was set up to qualify youngmen for government jobs and there has been no change in the system though the government jobs are few and there is a great crowd of educated candidates offering themselves for those posts. An educated young man looks first to government service and failing that to some clerical work under semi-official bodies like railway and local bodies or to teaching work in educational institutions.

In most cases the education which an young man takes is aimless. After matriculating if he does not get any job and has the means he takes up to higher education. And even after graduating himself if he cannot get any job he is forced to join M.A. and Law. In many cases youngmen are forced to go in for higher studies because there is nothing else to do. Moreover this purely literary education creates definite aversion to hand labour among educated youngmen. They think below their dignity to take up any manual occupation. They prefer a petty clerical post of Rs. 20 or Rs. 30 per month to the so-called manual occupation where the chances of earning may be much better. Recently there has been a definite tendency among the artisans, agriculturists and backward classes to send their children to schools and colleges with a view to Government service and they learn professions and thus promote themselves to the higher rungs of the social ladder. Reservation of government jobs for such classes has further accentuated this tendency. This great fascination for literary occupations in the country towards which even those classes are being increasingly attracted which had no tradition for letters is making the conditions worse. But while criticising the parents and the educated youngmen for not selecting suitable occupation one should not forget that there is utter lack of facilities for practical education— agriculture, technical, industrial, and commercial.

The Congress ministries under the leadership of Mahatma Gandhi tried with the basic education system to give an industrial bias to the education but the experiment was short lived and with their resignation most of the provincial governments stopped the scheme.

(3) **Economic backwardness of the country:—** But the most important cause as has been pointed above is the economic backwardness of the country. Industrial development of the country has been very slow. This

is why there are so few openings to the educated youngmen in this country. According to the Travancore Committee on unemployment there are altogether about 16,000 occupations in England, excluding army, navy, and civil services. In India there are perhaps less than 40. It is often said that there is lack of technical facilities for education in the country and purely literary type of education is imparted to the students. There is no doubt that this is the case but in most cases this point is overemphasised. Mere extension of facilities for technical and vocational education will not solve the problem unless industries are developed to absorb such youngmen. Cases are known at present in India where youngmen who have acquired highest technical training are working as clerks in offices. There is no doubt that technically trained youths are necessary for the growth of industries but unless industries are developed they cannot be absorbed and there will prevail acute unemployment among them as well. Bengal Committee on unemployment have rightly said "In an ideally balanced development technical training and economic progress should proceed forward together, each being in turn stimulated by the other. When one lags it should receive stimulus and *vice versa*." Therefore only by starting more technical institutions we cannot create employment for the youngmen. Development of economic resources, establishment of more industrial concerns and all-sided economic development is the only sure cure of unemployment. Economic backwardness is the basic cause of poverty of the masses and that is the main cause of all kinds of unemployment in the country.

(4) **Social Causes :—** Caste system, early marriages and joint family system also indirectly affect the employment of people in this country. For intance caste prejudice prevents educated youngmen from taking to more profitable occupations which are regarded undignified in

the particular communities to which they belong. Early marriage not only interferes with adequate training but also places too early in life the responsibility of maintaining a family on the shoulders of youngmen. The joint family system though it insures a living to the weak and helpless unemployed persons leads to economic parasitism and vanishes all initiative and ambition. Youngmen do not like to move out of their houses to seek employment in distant places. This tendency is also encouraged by the joint family system. But these social causes are rapidly losing their affect. The economic pressure is forcing people specially the educated classes to marry late, to accept occupations which are considered below the dignity of their caste standard and the joint family system is rapidly breaking down.

Remedies for unemployment:—It was for the first time in March 1922 that the Bengal Legislative Council passed a resolution suggesting the appointment to investigate the problem of unemployment among the educated middle classes of Bengal and to suggest remedial measures. The report of the Bengal Committee (1924) was strongly of opinion that the progress of the country depended on intensive industrial development. They made several concrete recommendations of a practical nature, such as starting farm colonies, industrial banks, and extension of technical and practical training. They advocated that technical training and economic progress should go side by side. In the last they remarked that though the question of general economic development of the country was of the very highest importance it was beyond the scope of their work.

The only step taken by the industries department in Bengal on the report was to create facilities for technical training to educated youngmen. Four demonstration parties were established which gave technical training

in several small indigenous industries in Bengal such as (*a*) jute weaving, (*b*) wool-weaving, (*c*) brass and bell-metal manufacture, (*d*) cultery manufacture (*e*) pottery ware manufacture, (*f*) boot and shoe making and (*g*) soap manufacture.

In 1926 the Legislative Assembly passed a resolution recommending to the Governor-General-in-Council that a Committee should be appointed to investigate into the problem of unemployment among middle classes and suggest remedies for the same. The Government of India thereupon addressed a letter to Provincial Governments on this matter pointing out their attention towards the resolution. In their letter they remarked 'such remedies as might be found practicable were remedies which only Local Governments could apply.' In their letter Government of India appear to have pointed out that the real causes of unemployment were far deeper and far more complex. Says the Government of India.

"The educational system, the state of industrial development, the changes that are being slowly brought in the structure such as the gradual disintegration of the caste system, which at one time operated to prevent middle class unemployment by restricting admission to the clerical professions, and at the bottom psychological factors inherent in the habits and customs of the people are all contributory causes to a state of affairs for which from the nature of the case no Government can find a panacea. The people alone can produce a change and the change must necessarily take time to accomplish."

The above attitude of the Government of India clearly shows that they wanted to absolve themselves from the responsibility altogether, and tried to throw the responsibility on the transferred side of the Local Governments. But the Provincial Governments cannot do much in this respect independently of the Government of India.

The question of unemployment is intimately connected with the development of big industries and the big industries, depend upon, many intricate questions of policy relating to finance, currency, tariffs etc., which are clearly outside the scope of Provincial Governments. As regards the development of agriculture too there may arise many questions of policy which will be beyond the purview of the Provincial Governments.

Some of the local Governments went into the problem as a result of the above letter and also in response from their local legislatures. The Madras Committee reported in 1927. The Committee of Madras Government remarked that unemployment of whatever section or society was a complex evil which arose from many causes and the bringing about of a change lay in the hands of the public at large. They suggested that steps should be taken to popularise agriculture as a means of livelihood, but they thought that there was no single panacea for the evil and that its remedy will have to be comprehensive and its scope all embracing and will require a length of time to operate.

The Punjab Committee made several statements of a general nature, namely that the present system of education produced men fit mostly for clerical occupations, that unemployment was due largely to extension of education in classes which previously did not aspire to Government service and that facilities for higher education should be provided only for the markedly able young persons, if poor, and for those who can pay its full cost and so on.

The Travancore Committee issued an exhaustive report which recommended, among other measure, an all round intensive development of the economic resources of the country on modern lines. In their opinion such development should be the foremost aim of Government activity.

In United Provinces the first committee on unemployment was appointed in 1927. They recommended that as an experimental measure employment bureau should be established in important seats of universities. The objects of the bureau should be to (1) maintain a register of middle class students who have passed High School, Intermediate and Degree Examinations, (2) to ascertain what openings for employment there are and to help them in securing employment, (3) and to give all necessary information and advice to youngmen and their parents as regards their education etc.

In 1935 again a Committee was appointed by the United Provinces Government under the chairmanship of Sir Tej Bahadur Sapru and it submitted its report in 1936.

Brief summary of Sapru Committees recommendations :—

(*a*) **Engineers :—**It is recommended that Municipal and District Boards should be compelled to have qualified engineers and overseers and the contractors undertaking public works should be made to keep qualified engineers and overseers.

(*b*) **Bachelor of Commerce :—**The utility of the men with B. Com. is considerably discounted partly because of prejudice among Indian Business men and partly because their education is completely theoretical and does not fit in with what is required by commercial houses. Therefore universities should make arrangements for practical training to be given to B.Com. students.

(*c*) **Medicine :—**Medical men should be persuaded to settle down in rural areas in larger numbers and for this purpose it is necessary to subsidize them on a generous scale. This will relieve

unemployment among medical men due to their congregating in the big towns and cities.

(*d*) **Public health :—**Posts of assistant superintendent of vaccination which have hitherto been given to men who are not even matriculates should in future be given to men who have some medical knowledge.

The number of medical officers employed in Municipalities should be increased. New schemes of sanitary improvement should be taken in hand and qualified medical men possessing diploma in Public health should be employed by District Boards. More adequate provision should be made for medical inspection and treatment of school-going children and for that purpose the strength of the medical staff should be increased.

(*e*) **Law :—**Practising lawyers should be divided into two classes :—(1) Those who will restrict themselves, exclusively to the proper function of a counsel (2) Those who will apply themselves exclusively to the drafting of legal documents and other acts in connection with a law suit.

(*f*) **Other professions :—**There is need of creating and developing some professions for instance pharmacy, dentistry, accountancy, architecture, librarianship, insurance work, secretarial work and journalism etc., universities should institute separate diplomas for such subjects.

(*g*) **Government Service :—**The rules regarding the age of retirement should be rigorously enforced and no extension should be allowed to any public servant after he has completed the 55th year of his age. Men who have retired from Government should not be employed by local bodies or semi-public bodies. In regard to sub-

ordinate services the age limit for entrance should be reduced.

(*h*) **Agriculture :**—It is desirable that graduates and diploma holders of Colleges and Schools should be encouraged to follow scientific farming as a means of living.

In the opinion of the Committee scheme of agriculture colonisation will not attract those educated youngmen who do not belong to the agricultural community. Nor in their opinion subsidiary industries like fruit growing and dairy farming, market gardening, sericulture, poultry farming, canning, pisciculture, spinning and weaving, carpet making, clay modelling, rope-making, pottery and cattle breeding will attract a large number of educated youngmen, unless they are adequately trained and financed or subsidized.

(*i*) **Industries :**—A detailed survey should be made with a view to find out what industries big or small can be developed. Industrial research workshops should be established to carry on industrial research.

A scheme of helping youngmen in starting small industries should be prepared. The youngmen adopting such careers be subsidized by the local government and they should also be helped by expert advice. For the proper organisation and development of industries the government should collect information in regard to the running of small industries in Japan and European countries. The department of industries should have a separate well organised intelligence branch which should furnish necessary information to industrialists and persons interested.

(*j*) **Technical Industrial and Vocational Education :**—Arrangements should be made for giving an industrial bias to the training imparted at general schools. Arrangements should be

made with firms, factories and master craftsmen for taking students as apprentices. Elementary industrial schools for boys should be maintained. Regional vocational guidance authorities should be created. They should establish contacts with educational institutions and actual industries of the locality and to help the products of such schools in securing employment in such industries.

(*k*) **Advice to parents and boys as to careers :—** Some steps should be taken to afford advice to parents in regard to intellectual capacity of their boys, and their suitability for certain careers.

(*l*) **Primary Education :—**While it should be the aim of primary education to remove illiteracy, it should also be its principal aim to qualify boys to become better agriculturists. Primary education, as it is given at present is ineffective, partly because it does not lay sufficient emphasis upon rural and agricultural needs and partly because the age limit is too low. The age limit for the purpose should be raised to 12-13 and the primary education should be brought more into line with rural needs. Compulsory primary education should be introduced, without it economic prosperity cannot be build up.

(*m*) **Secondary Education :—**The High School Examination should have two kinds of certificates—one certifying completion of the course of the secondary education and qualifying for admission to industrial, commercial and agricultural schools, and the other qualifying for Arts and Science Colleges. Proper agencies should be created for advising boys as to their careers.

(*n*) **University Education :—**While no arbitrary limit to the admission of the students should be prescribed, greater strictness should be exercised in admission.

While education in what are called humanities should not be discouraged greater stress should be laid on scientific and vocational education. Universities should encourage such research work as may be of practical use to industries.

(*o*) **Contact with Industry :—**Steps should be taken to establish contacts between science departments of the various universities and industrialists and business men, and such departments of the universities should devote themselves not only to higher academic research but should also undertake research which may prove to be helpful to industry.

(*p*) **Employment Bureau :—**Appointments Board should be established in each province for securing employment for university graduates and for the product of the secondary schools. These Boards should be required to collect statistics of employment among the graduates of the Universities and the products of the secondary schools and intermediate colleges.

These recommendations aim at increasing the demand for educated youngmen and to avoid excess of supply.

The labours of all these Committees were practically lost because provincial governments did practically very little to implement these recommendations of their respective committees. In fact public money was wasted on these committees and nothing came out of these committees reports. But they provided relevant material for studying the educated middle class unemployment.

Conclusion :—Really speaking it is wrong to separate educated middle class unemployment from unemployment in general. That is only one phase of the wider problem which India is facing to-day. The true cause of unemployment is the lack of balance and co-ordination between workers and occupations in the national economy of any country. It is a case of mal-adjustment—social and economic. Sir Arthur Slater in his book 'Recovery' rightly remarks "There is no absolute surplus of workers independent of the defects of the economic system."

Unemployment insurance, benefits, labour exchanges and other similar schemes though useful and necessary to relieve the hardship of industrial unemployment, are after all but partial and mere palliatives which cannot solve the problem. Exactly in the same manner the suggestions put forward in the above mentioned reports are merely doubtful palliatives and they cannot even give some relief to the educated middle class. The proper way to deal with this disease is to remove its root and fundamental causes. The fundamental cause of the unemployment is the economic backwardness of the country and it can be removed by reorganising our economic structure on sound basis. There must be a plan for reorganising agriculture and industries—big—medium and small and whole government machinery should be mobilised to carry out that plan. Then alone the problem of unemployment whether agricultural unemployment, industrial unemployment, or educated unemployment can be solved.

CHAPTER XXX.

CO-OPERATION.

The word co-operation is used in several senses. People are said to co-operate or work together to secure let us say, a legislative reform or some other desired end. But the sense in which the term is used by economists is a narrower one, restricted to a special form of "Economic Organisation in which the people work together for definite business purposes under certain definite rules."

We are accustomed in ordinary life to think of competition rather than that of association as being the underlying principle of the modern industrial structure. But a moment's thought will make it clear that our society is based on co-operation and not on competition as is often conjectured. In every day life we are so much dependent on each other that our very existence will become impossible if this mutual co-operation is withdrawn.

Survival of the fittest is the watchword of the modern capitalistic society. Some people believe that those who are inefficient, without any resource, incapable, and weak have no chance to survive and flourish. In their opinion competition eliminates those who are inefficient and incapable and thus causes all-sided development of the society. But this principle attaches greater importance to individual interests over the interests of the whole society. It gives preference to individual profits over social profits and gives rise to serious inequality of wealth. This is the cause of class struggle in the society which is now taking a serious form. Abolition of private property and nationalisation of resources as advocated by socialists is due to the fact that this unchecked competition has enabled a few capitalists to exploit large number of masses. The rich becomes more rich and the poor ones are reduced to abject poverty.

In the present day industrial structure the small scale-producer the artisan has no chance to survive against the competition of big factories and he has been forced to become a labourer in the same factories to be exploited by the owners of those factories. The small man has to pay an exhorbitant price for credit and the small consumer is robbed by the shop-keepers when he purchases his daily requirements. In short the man of very small means is exploited at every step under the present industrial system.

Co-operation wants to eliminate the competition, and exploitation of the weak from the society. It is a movement of self-help in which men of small means by organising themselves into co-operative organisation seek to get the same facilities and opportunities which men of good means enjoy. The small cultivator has to pay a very high rate of interest to the mahajan but by organising themselves into co-operative credit societies they enjoy better credit. Labourers and small consumers by organising co-operative consumers stores enjoy the facilities of purchasing their requirements at a reasonable price and the quality is guaranteed. By co-operative producer's organisation the labourers can own the workshop or the factory in which they work. The small artisans by co-operative organisation can enjoy some of the facilities enjoyed by the big producers.

In fact co-operation seeks to establish a co-operative commonwealth in which there will be no competition and each will work for the whole society. But this dream has not been achieved though the movement has done a great service to the society by enabling men of very small means to improve their economic condition, and stand againt the competition of rich men.

Distinction between a Joint Stock Company and Co-operative Society:—In a joint-stock company also people associate among themselves for business but

it differs from the method of work adopted by a co-operative society. The main distinction being the profits in the former are distributed in proportion to each member's capital holding and in the latter to his output of work or of business, the right of management also is vested among the shareholders of a joint-stock company in proportion of their capital but in a co-operative society every member has equal voice in the management of the society. In the case of a joint-stock company new shareholders are not taken in, once it becomes a paying concern. But the doors of a co-operative society are kept open to any body who wants to become a member after it has been successfully established. The joint-stock company therefore is a union of capital and the co-operative society is a union of persons. Co-operative Society, no doubt, uses capital, but it pays on it a fixed rate of interest, or in other words in joint-stock companies capital owns men, and in the latter men own capital. The former therefore is known as the capitalistic system, and the latter as the co-operative system.

Thus a co-operative society is an association of the weak who gather together for a common economic need, and try to lift themselves and others out of weakness into strength through business organisation conducted for the common benefit of all who join it. The essence of co-operation is that each shall work for all and all for each in the attainment of their common good.

Raiffeisen Co-operative Credit Societies :— The founder of rural co-operative credit movement, was Raiffeisen of Germany (1818-1888) who was very much touched by the misery and poverty of German peasants. He started his first credit society in 1864. Until 1879 these societies made very little progress but after that year they rapidly developed.

Objects :— The objects of starting such a society were, to provide for the peasant a bank at his doors, to

divise a form of security which is within the reach of peasants, to encourage thrift among them, to dissuade them from borrowing for improvident purposes, to benefit them educationally as well as materially; in other words to emancipate them from the clutches of the money-lender.

Main features :—The following are the main features of a Raiffeisen credit society :—(1) Limitation of area to a village, so as to secure mutual personal knowledge on the part of members. (2) No shares or shares of a nominal value. (3) Unlimited liability of the members. (4) Loans only for productive purposes; their expenditure being carefully supervised. (5) Loans only to members. (4) Credit relatively for long periods, say one to three years, with facilities for repayment by instalments. (6) The determination of every year by the members at a general meeting, the maximum credit of each member as well as the maximum total deposits receivable and of the loans that may be taken up by the society. (7) Absence of profit-seeking, profits not divisible, but transferred to a permanent indivisible reserve fund. (8) With the exception of secretary all the office-bearers should be honorary: No payment to anyone for the service which he renders to the society. (9) Promotion of the rural as well as the material advancement of the members. (10) Expenses are kept low and even if such a society closes its business the reserve fund is to be utilised for the common good of the village and cannot be divided among the members.

Each member has only one vote. They form the general meeting. The general meeting fixes the rate of interest the maximum credit of each member, the maximum amount of loans which the society can accept. It elects the managing committee and the council of supervision. The managing committee admits or rejects candidates for membership and decides all matters regarding management according to the decisions of the general body.

The council of supervision exercises general control over the managing committee and makes a periodical examination of the financial position of the society.

Schluze Delitzsch Banks or Peoples Banks :— Schluze also started his co-operative societies in Germany about the same time as Raiffeisen though both were unaware of the efforts of each other. The first bank was established in 1850.

Objects :—These banks were started for the purpose of furnishing credit to small traders, employers, artisans, and the middle class men in towns.

Main features :—The main features of these banks are :—(1) The area of the bank is not narrowly limited. (2) Shares are of a high value. (3) There is no invisible reserve fund as in Raiffeisen societies though there is the usual reserve fund built by carrying 25 p.c. of the annual profits. (4) Loans are made for short term. (5) Profits are divided among members. (6) Officials are paid salaries. The directors who form the Board of management are all paid. (7) Loans are granted only for productive purposes, but the purpose is not very closely scrutinised. Bank confines itself to pure banking business. Usually these banks are of limited liability.

The management is just on the same democratic lines as found in Raiffeisen societies.

Beginning of Co-operative movement in India :— The peasant revolts in Deccan near about 1880 led to the appointment of a peasant revolt commission which held the chronic rural indebtedness as the root cause of those uprisings. This attracted the attention of the State towards the problem of rural indebtedness. In 1883 and 1884 Taqavi loans acts were passed so that the farmers may get credit at a reasonable rate of interest from the State. But these loans did not become popular. The Famine Commission of 1901 recommended

the need of agricultural banks. In Germany the success of co-operative credit societies had attracted world-wide attention by now. And therefore Mr. Nicholson was deputed by the Madras Government to study the German co-operative credit movement and report whether it will suit Indian conditions. Mr. Nicholson wrote a valuable report and vehemently advocated the establishment of co-operative credit societies in India. U.P. Government also deputed a civilian who also favoured the establishment of co-operative credit societies for helping the peasants.

This led to the appointment of a committee on co-operation in 1903. On its recommendation the first Co-operative Act of 1904 was passed.

Co-operative Act of 1904:—It was a very simple piece of legislation. It allowed only credit societies to be formed divided into two classes known as rural and urban, the former to be of unlimited liability and the latter being free to accept limited or unlimited liability. Both kinds of societies were authorised to accept deposits and loans, and could advance loans to members, and by permission of the Registrar of Co-operative Societies, to other registered societies. Urban co-operative credit societies were permitted to pay dividend on shares after carrying 25 p.c. of the profits to the reserve fund, while all profits of the rural societies were to be carried to the reserve. Though after the reserve has accumulated to the proportion allowed by the by-laws profits to the extent of three-fourths could be distributed to members as bonus with the special permission of the Government. It authorised the Provincial Governments to appoint in their respective provinces a registrar to whom the Act assigned the work of registration of the societies, their audit, inspection, cancellation and liquidation. The Act laid down that any 10 persons above the age of 18 can form a society.

Members must be residents of the same village so that they may have mutual knowledge of each other. In rural societies 80 p.c. of the members must be cultivators and in urban 80 p.c. must be artisans and traders etc. Act also gave certain facilities to the Co-operative Credit Societies. No income-tax is charged on the income of these societies. Societies do not pay stamp fee nor the creditor of a shareholder can get his share in the Co-operative Credit Society attached.

The Act of 1912:—When the Act of 1904 was passed it was hoped that Co-operative Credit Societies will attract enough deposits for financing their members. But the hope was not realised. It was felt that working capital was needed for these societies and to supply the necessary capital central banks were needed. Central co-operative banks were needed not only to finance the co-operative credit societies but to supervise and control them. But under the Act such central co-operative banks or affiliating bodies could not be established. Moreover the Act of 1904 limited the co-operative movement to credit supply only. And after the experience of seven or eight years of working showed that much progress cannot be made unless non-credit co-operative societies are developed. Such as agricultural marketing societies, co-operative consumers stores, etc. The cultivator is not only exploited when he takes credit from the mahajan but he is also robbed when he sells his agricultural produce and purchases his requirements. Therefore only credit societies could not solve his problem. But the Act of 1904 did not provide for the establishment of non-credit co-operative societies. And therefore in 1912 the second co-operative Act was passed to remove these defects.

The new Act allowed the formation of Central Banks and unions with primary societies as their members, and societies for production, distribution, and for various other purposes besides credit. The old distinc-

tion between rural and urban societies was done away with as being artificial and inconvenient, substituting a distinction based on the character of a society's liability as limited and unlimited. The distribution of profits in unlimited liability societies was allowed with the general or special sanction of local Government. Authority was given to the Registrar to delegate some of his powers to others, and the use of the word 'co-operative' was restricted to societies registered under the Act, it also prohibited other concerns from adding that word to their name or title. All the societies were allowed to set apart not more than 10 p.c. of their profits for education and charitable purposes after 25 p.c. has been reserved. It was also provided that the liability of a society of which a member is a registered society shall be limited, while that of a society of which the object is to provide credit to its members and of which the majority are cultivators shall be unlimited, and that in all other cases it shall be optional.

After the introduction of the diarchical form of Government in the provinces under the Government of India Act 1919 the provinces were given the option either to be governed by the II Act of 1912 or to pass their own Acts. Bombay was the earliest to avail this option with its Act of 1925. Madras with its Act of 1932. Bihar and Orissa with its Act of 1935. Coorg with its Act of 1936 and the last was Bengal with its Act of 1940. In the rest of provinces the Co-operative Societies Act of 1912 is still in force. The tendency of these provincial legislations has been on the whole to strengthen official control over the movement. The Indian states have got their own Acts modelled on the lines of British Provinces Act.

The defect of the Co-operative Acts is that the Registrar is the centre of the picture and not the Society. The Registrars powers are so wide and unlimited that a democratic and popular movement cannot grow.

Maclagan Committee on Co operation (1914-15) :— In order to enquire into the soundness, economy, and financial position of the movement the Government of India appointed a committee on co-operation under the chairmanship of Sir Edward Maclagan. With the publication of this classic report in 1915 the co-operative movement entered on the second stage. The first stage of 'initial effort and planning' ended with it. After examining the movement in all its aspects the Committee made important and far-reaching suggestions for the improvement of co-operative societies and there extension.

The Maclagan Committee held that the following are the defects which hamper the growth of movement :—

(1) **Defective organisation :—**The co-operative organisers in their zeal to organise more co-operative societies do not educate the members in the principles of co-operation and therefore they lack in co-operative spirit.

(2) **Illiteracy :—**Ignorance and illiteracy of the mass of rural population creates a number of serious difficulties in the way of management, supervision, and formation of societies.

(3) **Selfishness of the Punchayatdars :—**The Puncha's mis-appropriate the bulk of the loans by means of benami transaction, and are guilty of criminal negligence of duty, of mismanagment, and fraud.

(4) **Nepotism :—**Favouratism in advancing loans is often shown by the Punchayatdars to their relations and friends and also in repayment of loans. Punctuality in repaying loans is not rigidly enforced.

(5) **Officialism :—**The notion that co-operation is a Government charity or the societies are 'Sarkari Banks'

militates against the success of the movement. When we think of co-opertion in India we do not call to memory the great servant of humanity "Raiffeisen" but the mercenary Registrar of co-operative societies.

Red Tapism:—The delay in obtaining money derives the cultivators to seek shelter in the clutches of the money-lender.

Maclagan Committee therefore laid great stress on better organisation, strict supervision, and inspection of the co-operative societies. They also recommended that the Provincial Co-operative Banks should be established to complete the financial side of the movement. In response to this Provincial Co-operative Banks have been established in all provinces except N.W.F.P. and centrally administered areas. The states of Mysore and Hyderabad also have apex banks similar to those of Provincial banks in British Provinces.

With the co-operation becoming a transferred subject under the Government of India Act of 1919 further impetus was given to the movement by the ministers in charge and the period between 1915 and 1929 was marked by large expansion of the movement in almost all the provinces. This is called the period of unplanned expansion. Then followed from 1929-30, acute economic depression in India by catastrophic fall in the prices of agricultural products and of agriculturral land. The co-operative movement received a serious set-back in every province and programmes for the rectification and consolidation, or rehabilitation and reconstruction in all provinces have taken the place of expansion and development. This may be called the period of 'set-back and reorganisation'. The war brought about rise in the price of agricultural prices and this naturally relieved the situation. The movement began to show signs of recovery.

The progress of the Co-operative Movement.

Period average for 5 years.	Number of Societies in thousands.	Number of Societies in Lakhs.	Working capital in crores Rs.
From 1910-11 to 1914-15	12	5.5	5.48
„ 1915-16 to 1919-20	28	11.3	15.18
„ 1920-21 to 1945	58	21.5	36.36
„ 1926 to 1930	94	36.9	74.89
„ 1931 to 1935	106	43.2	94.61
During 1937-38	111	48.5	103.2
„ 1938-39	122	53.7	106.47
„ 1939-40	137	60.8	107.10

Rural Primary Co-operative Credit Societies :— The primary co-operative credit societies form the base of the federal structure of the co-operative credit movement. As Mr. Wolff graphically observed. "It is the local society—the single brick at the bottom layer upon which the intended fabric has to rest.

The membership is open to any person of good character without any distinction of caste, creed, and calling. The only condition is that they must be resident of the same village. If the village is too big more than one society is established. Otherwise area of operation is restricted to a village. Rural primary co-operative credit societies are organised on Raiffeisen model with unlimited liability which is in practice an ultimate contributory liability arising only on the liquidation of the society. This liability of a member subsists for two years after the cessation of membership. A Haisiyat or property register is kept for record of tangible assets of the members; based upon it, their maximum credit is fixed by the general meeting.

The rural primary societies may have share capital or no shares. In U.P. Punjab, and Madras the societies mostly have shares of Rs. 10 or Rs. 20 each and in the rest of provinces societies are without shares. These societies obtain their working capital by shares (in some provinces) by deposits from members and non-members, and by loans from central and provincial co-operative banks. Entrance fee, and reserve fund also add to the working capital of these societies. The Central Banking Enquiry Committee depricated the attraction of deposits from non-member at a high rate of interest. They are to act as saving banks and promote thrift. The maximum value of shares held by an individual is restricted. The shares are exempted from the attachment or sale by courts in insolvency proceedings. Every member has only one vote irrespective of the shares held by him. An elected managing committee (Punchayat) with a president (Sarpunch) and a paid or elected honorary member secretary under the general boby of shareholders (General meeting) looks after the management of the society. Loans are granted only to members. The loans are based on their object and the repaying capacity of the borrowers, and are granted to the extent of 50 p.c. of individual assets of members, for cultivation expenses, purchases of fodder, implement and cattle, personal maintenance, litigation, and ceremonial expenses but not for speculation and wasteful expenditure. Unproductive loans are given sparingly for smaller amounts and shorter periods than productive loans. But members frequently apply loans taken for productive purpose in unproductive and wasteful activities. No check is kept on the misapplication of loans in India. Loans are advanced mostly on personal security of the borrowers and sureties and sometimes on the mortgage of property. The rate of interest varies from province to province and within the same province itself. If there are reasonable grounds like failure of crops exten-

sion is usually granted. All societies have to create and maintain reserve fund out of profits. Societies without shares, credit the entire profits to an indivisible reserve fund whereas those with share capital credit a substantial portion to the indivisible reserve and distribute the rest as dividends with the sanction of the local Government after the Reserve fund has reached a certain figure. Some societies give loans out of the reserve to their members while others deposit them with Central Banks. The Central Banking Enquiry Committee has approved the latter practice.

The primary credit society enjoys a number of privileges. It has a prior claim in case of Government dues over other creditors of its members for agricultural loans. But there is no specific charge. The Bombay Provincial Act converted this prior claim into a first charge. It has been adopted by other Provincial Co-operative Acts as well. The primary societies also enjoy certain privileges in the matter of registration and stamps, money order commission, and are exempt from the payment of income-tax.

The proper rôle of the rural credit societies in the scheme of co-operative finance has now been practically settled in favour of idea that it can safely and usefully provide only short and medium term credit. Loans for long term purposes such as discharging of old debts are no longer advanced by these societies.

The question of converting rural credit societies into multi-purposes societies with the addition of accessory function is one which is engaging increasing attention. In U.P. 1,000 rural credit societies have been transformed into what are called rural banks with limited liability.

In the year 1940 there were in British India and Indian States 1,18,744 agricultural societies of which 1,01,401 or 85 p.c. were credit societies. The total membership was 41 lakhs and their aggregate work-

ing capital was Rs. 30.5 crores. The aggregate paid up share capital was Rs. 4.08 crores and the reserve and other funds Rs. 8.27 crores. The owned funds thus represent 40 p.c. of the working capital. Deposits were received to the extent of 2.5 crores and loans from central banks amounted to little less than Rs. 16 crores.

There is however some weakness in owned capital, the reserve funds have been created without adequate provisions for bad and doubtful debts. The reserve fund is, in fact a reserve account which is being diminished by the accumulation of irrecoverable debts. Heavy overdues were allowed to accumulate and the situation has become serious particularly in Bengal, Bihar, Orissa, Berar and C.P. It may be said that credit co-operative movement there has nearly collapsed. The position is not so bad in other provinces but not quite sound anywhere. This can be found out by the audit classification of the societies which shows that most of the societies are placed in C. and D. classes meaning very weak and financially unsound. In 1940 more than 10 thousand societies were under liquidation involving more than Rs. 3 crores of capital. This shows that the rural credit societies are not doing well.

Urban Credit Societies:—The urban credit societies are the most suitable agencies for non-agriculturists and cater for the financial requirements of small traders, artisans, petty shopkeepers, contractors, salaried men and wage-earners. The joint stock banking in India is very little developed in smaller towns there are no banking facilities worth the name. Small traders, wage-earner and artisans are in the iron grip of the dealer, the mahajan, and thus there is a wide scope for urban credit societies. These are organised on the Schulze Delitzsch model of German credit societies, and Luzzati type of Italy.

Urban banks have taken different forms in this country chiefly in search of a common bond for the forma-

tion of society. They may accordingly be classed under three principal categories (1) Peoples banks that are found in large numbers in Bombay and Madras Presidencies. In these provinces almost all important towns are served by such banks. (2) Employees or salary earner's banks. These predominate in Bengal and Bombay. (3) The communal banks which prevail chiefly in Bombay. The working system of these banks is similar.

Working Capital:—The working capital of the bank is obtained by share capital, deposits from members and non-members. Most of the urban banks are in a position to attract sufficient working capital by means of deposits and therefore they do not stand in need of outside loans, except for temporary accommodation from Central Banks and Provincial Banks generally on the security of their own deposits placed with them. These banks accept all kinds of deposits current, savings, and fixed. Reserve fund also supplies the working capital.

The affairs of the bank are governed by a Committee or Board of Management elected by general meeting. The Committee members generally render free service. The Committee has the power to admit members, to receive deposits and loans, to sanction loan to members to appoint paid staff, to appoint Secretary and Chairman. Day to day work is carried on by a paid staff.

Loans form the main and in most cases the only business. The usual period is one year and repayment is usually by monthly instalments. Cheque and Bill business is also carried on in Bombay. 25 p.c. of the profits are carried to the reserve fund and the rest is distributed among the members.

There are at present only 6,951 urban credit societies and banks. The number includes the Peoples Banks of Bombay and Madras. Salary earner's bank of Bengal and Bombay and Thrift Societies of Punjab.

Central Banks or Banking Union:—The primary rural credit societies could not attract sufficient deposits to finance their members to overcome this difficulty, the societies combine to form a Central Bank or Banking Union. These Central Banks operate in an area varying from a Taluka to a District. These banks being situated in a town and operating in a larger area are able to command more deposits. They not only supply the deficiencies of a society in need of funds but also take over the idle balances in the hands of those who have surplus funds and thus act as balancing centres.

These banks are of limited liability. In Banking Unions membership is confined to primary societies only. But all the Central Banks are of a mixed type the membership being open to individuals also. The object of having individual members is to have on the board of management a few persons of influence and experience business men with a view to inspire confidence among the investing public.

The managing board of a Central Bank consists of representatives of individual members and of primary societies, the latter generally forming the majority. The affairs are managed by a paid manager and a staff working under him.

The main business of the banks is to advance loans which are made only to societies and not to individual members. The capital of these banks is formed by shares (Rs. 50 to 100/ each) and deposits of all kinds. In U.P. current deposits are not accepted.

In making loans to rural societies the Bank fixes the maximum credit to be allowed to the society from which the latter has to draw as and when the needs of the members arise. This is called the normal credit of the society. 25 p.c. of the profits are contributed to reserve fund.

There are 594 Co-operative Central Banks and Banking Unions in India. 484 in British India and 110 in Indian States. Punjab 120, Bengal 117, U.P. 70, Bihar and Orissa together 68, C.P. 35, Assam 20, Bombay 11, Madras 30. Their membership consists of nearly 1,04,000 societies and 80,000 individuals, their aggregate working capital is Rs. 29.21 crores of which paid up capital amounted to Rs. 2.65 crores and Reserves Rs. 4.2 crores.

✓ **Co-operative Land Mortgage Banks :—**The loans advanced by Co-operative Credit Societies to their members and by the Central Banks to their affiliated societies are from their very nature of deposits (one to three years) for short and intermediary term only. Thus for the the rural co-operative credit societies did not provide redemption of old debts or for increasing the earnings of agriculturists, which alone would prevent any further indebtedness and pave the way for paying off the old debt. The need for long term loans to the agriculturists for land improvement, for the redemption of old debts is very urgent and the time has come for the provision of this facility by starting of land mortgage banks.

There are three main types of such banks. The strictly co-operative type is an association of borrowers who raise credit by the issue of mortgage bonds on the security of their land bearing interest and made payable to bearer. The commercial type works for profit and declares dividend and is suitable for big zamindars. The third type quasi-co-operative has a mixed membership of borrowers and non-borrowers. The banks organised in India are in a sense of the co-operative type though strictly speaking they belong to the quasi-co-operative type as they admit a few non-borrowing individuals for attracting initial capital as well as business talent, organising capacity and efficient management.

Working Capital :—Shares are not essential for such banks because they do not provide even a fraction

of capital which these bank need. The reason why they have been introduced in India is partly to afford additional security to debenture holders and partly for getting ready capital for working expenses. Nor these banks receive any deposits as they finance the cultivator for 20 or 30 years and such long term deposits will not be available at a reasonable interest. Therefore the main source of capital of these banks must be the issue of debentures. As soon as a member applies for loans his title in his land is scrutinised and the land is mortgaged to the bank on the security of the mortgaged land debentures are issued to the public and capital obtained for financing the borrowing members.

If primary mortgage banks issue debenutres they would be driven to compete with each other in the market and will have to pay high rate of interest. It is, therefore necessary that debentures should be floated by a single central agency, *i.e.*, the central land mortgage bank. In India Bombay and Madras have central or provincial land mortgage banks otherwise in other provinces the provincial co-operative banks finance the primary land mortgage banks or float debentures on their behalf.

The usual practice is that the member pays off his old debt in lump sum and pays in regular instalments to the bank. The maximum amount of loan to be given is fixed in different provinces and it varies from Rs. 5,000 to Rs. 10,000 and the period also is fixed which varies for 10 to 20 years or even 30 years in some cases. The maximum amount of loan given to a member does not exceed 50 p.c. of the value of his landed property mortgaged with the bank. So that if the value of land falls the bank may have enough margin to recover its loan. In giving long term loan the most important point for consideration is whether the borrowers' income will leave enough margin after all the expenditure is taken into account, both agricul-

tural and household. Where the margin is nil there is no scope for mortgage credit, because it is out of this net saving that the borrower has to pay the instalment of his mortgage loan.

Co-operators feel the need of active assistance of government in the form of guaranteeing the interest on the debentures issued by the land mortgage banks and also by guaranteeing the capital. Punjab and Madras governments have guaranteed the interest on a certain amount of debentures issued by the land mortgage banks. They have also been made trustee securities in Madras.

Land mortgage banks were first started in Punjab in 1920. There were 10 land mortgage banks but now they have ceased to work and are in a process of gradual liquidation. In Orissa there is a provincial land mortgage bank but it finances individuals directly through its branches as there are no primary land mortgage banks. In Assam, Bengal, U.P. and Ajmer and Merwara there are less than half a dozen primary land mortgage banks each. In Central Provinces there are 21 land mortgage banks and they have made some progress. The provincial co-operative banks finances the land mortgage banks. It issues debentures and operates through a separate long term credit section. Bombay has 17 land mortgage banks. Madras has the largest number of land mortgage banks in India 119. Among Indian States Mysore, Baroda and Cochin have made some progress in regard to land mortgage banking.

Two important problems connected with land mortgage banks are still to be decided. The most important of them is the question of Government guarantee for debentures. Another important question is the grant of second loans for land improvement and other necessary purposes for it would be inadvisable to let those who have already borrowed from land mortgage banks to go to an outside creditor for such purposes.

Provincial Co-operative Banks or Apex Banks :— The central banks in turn are federated in bigger banks called Provincial Co-operative Banks or Apex Banks which co-ordinate and control to some extent the working of and act as financing agencies and balancing centres of working capital of central banks. They act as a link between the provincial money market on the one hand and the co-operative credit societies on the other. They grant cash credit and discounting facilities to central banks. Ordinarily they do not deal with primary societies directly except in places where the central banks do not exist. They admit a large number of individual shareholders. Besides the individual shareholders they have central banks and co-operative societies. Both in the general body and the Board of Directors there are representatives of the central banks and co-operative societies and individual shareholders.

All Apex Banks both in British India and Indian States depend for their working capital largely on deposits from their affilated co-operative societies and also from the public, their own share capital, reserve fund, short term loans, cash credits and overdrafts from the imperial and other joint-stock banks. They lend only to central banks and primary co-operative societies. Besides financing co-operative societies they carry on ordinary banking business such as collecting hundis and dividends from companies and collecting the pay and pension of public servants.

They accept all kinds of deposits, fixed, saving and current and therefore they are required to keep sufficient fluid resources and cash reserves for meeting the withdrawals of deposits. They have been kept on the "approved list" of the Reserve Bank of India and like the scheduled banks get free remittance facilities and rediscounting co-operative papers, cash credits and overdraft facilities.

There are 11 Provincial Co-operative Banks in India 9 in British India, Madras, Bombay, Bengal, Bihar and Orissa, Punjab, C.P., U.P., Sind, and Assam and two in Mysore and Hyderabad. U.P. was the only major province which had no such bank and its establishment was badly needed. On the 19th January, 1945 the U. P. Provincial Co-operative Bank was established at Lucknow.

All these banks have formed the Indian Provincial Co-operative Banks' Association for co-ordination, promotion of common interest and supplying information as to each other's financial needs. The Maclagan Committee had recommended the establishment of an All-India Apex Bank to provide re-discounting facilities and elasticity of operation to the Provincial Banks, but now that the Reserve Bank provides such facilities there is no need of an independent All-India Co-operative Bank.

Co-operative Credit movement and the Reserve Bank:—According to Section 54 of the Reserve Bank Act provision was made for the creation of an Agricultural Credit Department and under section 55 for the submission to the Governor-General-in-Council of a report on the extension and improvement of the machinery for agriculture credit.

The Agricultural Credit Department of the Bank was created in 1935. Its statutory functions are:—

(1) To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, Provincial Governments, Provincial Co-operative Banks and other banking organisations.

(2) To co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other bank or organisation engaged in the business of agricultural credit.

The Reserve Bank issued two valuable reports regarding the reorganisation of the co-operative movement in 1936 and 1937 with the following suggestions:—

(1) Where indebtedness has grown beyond any reasonable capacity of the debtor to pay the debt must be reduced.

(2) Total future liability (after the liquidation of previous debts) of the agriculturists might be so limited as to enable the debt to be liquidated after providing for the bare necessities of life within a period of 30 years.

(3) The agriculturists must not be allowed to borrow from more than one source.

(4) The first step necessary for putting the co-operative movement on its feet is to disentagle those assets which represent long term debts.

(5) Adequate representation should be secured to the depositors on the boards of provincial and central co-operative banks to check over borrowing and undue leniency in the matter of recovery.

(6) Loans must be strictly limited to cultivation finance which can be repaid out of the proceeds of the harvest in a normal year.

(7) If loans are not repaid within the stipulated period immediate steps must be taken to recover the amount or wind up the society unless there is a crop failure.

(8) Co-operative Societies Act might be amended to give them a fixed charge upon produce obtained with the aid of loans advanced by them, and to render liable 3 months imprisonment any cultivator-borrower who disposes of his produce without repaying this loan.

(9) Overdues should be brought down to a level at which there is a reasonable prospect of repayment out of the profits of agriculture within a reasonable period, say,

20 years, partly by writing them off from reserve and partly by recovery from sale of members' assets.

(10) The primary society which is the pivot of the whole movement must be reconstructed, so as to bring the whole life of the cultivator within its ambit, that is, they should be converted into multi-purposes societies.

(11) Closer contact should be established between co-operative banks and first class commercial banks.

(12) Land mortgage banks should not exclusively concentrate on liquidation of old debts to the neglect of far more important work for supplying finance for improvement of land which would be productive of permanent benefit to the agriculturists.

(13) Credit Societies must build up their own business on their own resources and on lines which do not lay reliance for day to day needs on an outside or even the central institution.

(14) Co-operative Banks cannot expect Reserve Bank to supply normal finance or to act as the Apex Bank of the movement. The Reserve Bank can come into the picture only when the ordinary pool of commercial credit appears inadequate to meet the reasonable business requirements of the country.

The financial relation of Co-operative Banks and the Reserve Bank:—The Reserve Bank gives free remittance facilities for co-operative purposes and for others at nominal charge between the office centres, and the Imperial Bank does so between its branch centres. The Reserve Bank gives credit facilities to agriculture in the following manner:—The Provincial Co-operative Banks have been made scheduled banks and get rediscounting facilities. The Reserve Bank is allowed to buy, sell and rediscount agricultural bills and pronotes endorsed by a scheduled bank or provincial co-operative bank drawn for the purpose of financing seasonal agricultural opera-

tions or the marketing of crops and maturing within 9 months. It is authorised to make loans or advances for 90 days to provincial co-operative banks and central land mortgage banks declared to be provincial co-operative land mortgage banks and through them to co-operative central banks and primary land mortgage banks against the security of (*a*) government paper (*b*) approved debentures of recognised land mortgage banks which are declared trustee securities and which are readily marketable. Further it can extend advances for 90 days to provincial co-operative banks against the security of (*a*) pronotes of central co-operative banks drawn for financing seasonal agricultural operations (*b*) pronotes of approved co-operative marketing or ware-housing societies endorsed by provincial co-operative banks and drawn for marketing of crops, and (*c*) pronotes of provincial co-operative banks supported by warehouse receipts or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank, to marketing or warehousing societies.

Co-operative Credit Movement and general banking :—The Co-operative Credit Societies have seriously challanged the position of money-lenders in the villages and damaged their monopoly position. Though the village money-lender still dominates the scene and he is the main-supplier of the credit in rural areas. If money-lender could be brought into the fold of co-operative credit movement it would have strengthened the movement.

There is little competition between the commercial and co-operative banks at present because their respective spheres of activity are widely apart but the joint-stock banks and even the Imperial Bank has levelled the charge that co-operative banks compete with them in attracting deposits because of their privileged position, and in purchasing drafts and selling remittances etc., there has been unfair competition from the co-operative banks. The

Governor of the Imperial Bank suggested before the Central Banking Committee that co-operative banks should confine themselves to co-operative banking and should not be allowed to compete with the commercial and indigenous bankers in other banking business. But the Central Banking Committee did not agree and recommended that they should be allowed cheque transactions, and remittance business, and granting of credit on current accounts. In fact banking facilities are so rare in small towns in India that the co-operative banks should be encouraged to take up this business rather than be discouraged.

NON-CREDIT CO-OPERATION.

The Co-operative Act of 1904 did not provide for the establishment of non-credit societies. It was felt that non-credit societies should also be started to help the poor and weak in improving their lot and hence in second Co-operative Act of 1912 provision was made for the establishment of non-credit co-operative societies. Still the preponderance of credit societies persists to this day though consolidation of land holdings societies, better living societies, sale and purchase societies, housing, production and insurance societies etc. have been developed yet their numbers are not very large and credit society is still the predominant type. To some extent it was natural because the problem of rural finances led to the starting of the co-operative movement in India and therefore the co-operative departments mostly concentrated their attention on the co-operative credit societies. But now the need of developing non-credit societies is being keenly felt and efforts are being made in all the provinces to develop these societies.

The chief object of the co-operative movement in India is the economic emancipation of the masses which can only be achieved by bringing about revolutionary changes in the present day economic system of the country. The

villages are in the grip of mahajans and the oppressive landlords, the villagers are suffering from proverbial poverty of the extreme type, chronic indebtedness, squalor and disease and ignorance. They are being exploited at every step. All this can only be checked by promoting an all-round co-operative activity and not only by providing co-operative credit. The cultivator does not get a reasonable price for his crops, the village money-lender who also happens to be a dealer in agricultural produce exploits him by paying a lower price for his produce. The cultivator purchases his requirements at an unreasonably high price from the same dealer. Thus he can only be saved from being exploited when the mahajan is supplanted by the co-operative society in every field. The Provincial and Central Banking Inquiry Committees also stressed the need of attaching the co-operative credit movement to co-operative marketing so that the full benefit of co-operative credit may be reaped by the cultivators by the elimination of middlemen.

To enable the Indian cultivator to free himself from the crushing weight of his indebtedness it is necessary that he must be placed on 'surplus economy' that is there must be a little surplus left annually after paying the cultivation expenses and his family's maintenance expenses. To secure this surplus his many-sided exploitation will have to be stopped, all waste will have to be checked and his productive capacity will have to be increased. This can only be done by a plan of all round co-operative activity and not only by supplying him co-operative credit.

Recently the idea has gained ground that co-operation instead of dealing piecemeal with its members should cater for all their needs. The divorce of credit from production, distribution, and consumption or from supply and sale must be given up. The single purpose society must be replaced by a multi-purposes society so that one

society may deal with the whole man to encompass the entire life of the peasant within its ambit. This course has been strongly advocated by the Agricultural Credit Department of the Reserve Bank in India in its statutory report and several bulletins.

A credit society for example may redeem members' debts through a land mortgage bank, purchase implements, bullocks, manures, seed etc., and sell their produce co-operatively, encourage the development of subsidiary industries, avoid litigation through arbitration, improve crops by consolidating the land holdings, and supply improved seeds and implements, provide medical relief, improve sanitation and drainage, and cut down ceremonial expenses and spread education through propaganda and organisation of adult and night schools, libraries, reading rooms and provide healthy recreation by introducing cheap and popular games, organising open air dramas, and village melas etc. The start can be made by a society beginning with only one phase of the problem like credit sale, purchase or better living and then gradually other activities can be taken up to make a better and fuller life for its members and to secure a surplus income for the cultivators. To enable the primary co-operative credit societies to perform all the abovementioned services Banking Unions on the model of Kodinar Union should be developed as financing agencies.

Though there are well known co-operators in India who do not favour this idea of converting the credit societies into multi-purposes societies because they think that the amalgamation of credit and non-credit business in one society is risky and because of organisational difficulties yet this idea has found favour with most of officials and non-officials in India. In fact the popular ministries and specially the Congress ministries gave a push to all round co-operation with great vigour and enthusiasm. They

realised that the establishment of multi-purposes societies was imperative for complete remodelling of villager's life. In United Provinces, under the able guidance of Dr. K. N. Katju, 1,000 multi-purposes societies named as rural banks were started.

The non-credit societies, broadly speaking, can be discussed under two heads, agricultural and non-agricultural.

AGRICULTURAL NON-CREDIT SOCIETIES.

Consolidation of land holdings :—While the evils of fragmentation are obvious the remedy is not easy to find. The co-operative consolidation experiment was first of all made in Punjab in the year 1920.

The object of consolidation of holdings society are to secure a beneficial rearrangement of holdings and to prevent loss and waste by fragmentation. It is necessary that every member must be a land owner, or occupancy tenant, or having interest in the land. Every member has to sign a statement that he agrees to the principle of re-arrangements of scattered holdings so as to secure compact blocks of field, to submit to any arrangement approved by two-thirds of the members in the general meeting.

All important matters are decided at the general meeting and confidence is gained by strict adherence to democratic principles. It decides the main principles to be observed such as the kinds of lands, whether minor differences as to trees, wells etc. should be made good by money payments and so on. Thereafter a scheme is prepared for the re-arrangement of holdings if two-thirds of all members accept the scheme it becomes binding on all otherwise it is discarded.

In fact reliance is placed on persuasion and not upon the element of compulsion in making members accept the new arrangement. No one is asked to agree to

the re-arrangement until he has a new holding marked out on the ground.

In certain cases the achievements have been spectacular. In Gurdaspur district 10 villages were consolidated and 4,173 acres of land divided into 1,099 blocks was reduced to 58. Innumerous tiny plots are reduced to a small number of big sized fields is the common day experience of those who are engaged in this work. The benefits are numerous, they can be summarised as under:—Litigation and quarrels, decrease, rents rise, outturn of crops increases, new waste land is brought under cultivation, dry land has been brought under irrigation, thousands of wells have been sunk, access has been obtained to road-ways, nuisance from straying cattle and tresspassing has disappeared, village houses have improved, farming has become more intensive, fruit plants have been planted, social amenities have been provided and real community spirit has begun to appear, peasants have begun to live on their land.

It is easy to enumerate these results, but difficult to produce them where everyone has to be satisfied and conflicting interests reconciled. Technical difficulties too abound and underlying all is the peasants passionate love for his land. Everyone fancies that his ancestral plots are the best and dislikes the idea of exchange. Very small owners of a plot or two see no advantage in consolidation. Mortgagees oppose any alterations, and occupancy tenants fear that their rights may be lost if there possession is disturbed. Some owners have migrated to distant place and their consent cannot be obtained. The village patwari hates consolidation because his source of income is threatened. Old men hate to be disturbed and minors require special consideration. The bigger men have sometimes got more than they are entitled to and repartition would take this away.

It sometimes happens that the refusal of one or two individuals at the very last moment wastes the entire labour. The work demands utmost sympathy and labour. Therefore it is urged that consolidation of land holdings should be carried out by legislation. Though consolidation by co-operative method is very valuable because it does not bring in any compulsion in the matter of transference of land from one cultivator to another but the work of consolidation is carried on very slowly and this is why the opinion is gaining ground that legislation should be passed to compel a small minority to accept a scheme which has been accepted by the majority. In C.P. the consolidation of landholdings was carried on by the Government staff under the Consolidation Act. In 1936 Consolidation Holdings Act was passed in Punjab and consolidation work is being carried on by the Revenue Department along with co-operative consolidation societies. In the United Provinces as well co-operation of landholdings Act has been passed in 1939. Thus the need of compulsion has been recognised. Though voluntary consolidation by co-operative method is preferred but compulsion is necessary for rapid development of consolidation.

Progress of Co-operative Consolidation :—This work began in 1920 in Punjab. In the first ten years progress was very slow consolidating only 2,63,426 acres at a cost of Rs. 2-5-0 per acre. But now consolidation work has gathered momentum and land is being consolidated at the rate of nearly 1,50,000 acres per year. The total area so far consolidated exceeds 15 lakh acres at an average cost of Rs. 1-14-0 per acre. The total number of wells so far sunk exceed 6,000 besides nearly 30 jhalars (water courses) and more than 1,000 wells repaired. There are more than 1,600 societies.

The consolidation of holdings movement was started in the United Provinces in 1924-25 and its progress has been slow. There are more than 200 societies working in

13 districts of U.P. In Madras as well attempt has been made to carry on consolidation work by co-operative method, there are a few societies but the progress is negligible. In N.W.F.P. also consolidation work is being carried on by co-operative societies and they have achieved some success.

Besides these provinces in British India, Kashmir and Baroda States have also launched this movement in their respective territories. The movement in Kashmir has progressed very well. There are more than 100 consolidation societies in Kashmir. In Baroda as well the movement is gathering force.

Co-operative Marketing and Supply Societies :—In a country where the peasant is a very small cultivator and is under the economic bondage of money-lender the need of co-operative marketing is self-evident. In fact this is as important as the supply of credit itself. In almost all the progressive agricultural countries co-operarative marketing has been developed and the cultivator has very much benefited by these societies. "No other form of non-credit co-operation offers greater possibilities for improving the income and the purchasing power of the agriculturists than organisation of co-operative marketing" and yet it is a pity that very little headway has been made so far in organising co-operative sale and purchase societies for both agricultural and industrial products of the villages. It is only during the last decade after 1930 that marketing and supply societies have been rapidly organised in the different provinces in India. It must not be forgotten that co-operative credit without co-operative production and sale can never place the Indian peasant in a position of surplus economy and therefore this movement needs all encouragement.

Bombay :—In Bombay there are 34 cotton sale societies which sell cotton worth 39 lakhs every year. These

societies have found their sale unions which sell the cotton of these marketing societies. Because a single marketing society is too small a unit for marketing purposes these unions have also set up cotton ginning and pressing factories to gin and press their own cotton. The societies distribute good seed among their members and thus the societies, cotton is getting a good reputation in the market. These societies are financed by the central co-operative banks. Besides these 34 cotton sale societies there are about 60 other sale societies for *Gur*, chilly, mango, paddy arecanut, fruits, vegetables, and eggs etc. Recently a Provincial Marketing Society has been registered and it is hoped that co-operative marketing will get a further impetus.

Organisation of the Cotton Sale Societies:— Any grower of cotton in the area of operation can become a member by purchasing a share and by giving the guarantee of loyalty. These members form the general meeting and it elects the board of management. The sale society gives loans to its members on the following basis (1) on actual produce deposited with the sale society 50 p.c. of the market value, (2) on the standing crop of cotton on the joint liability system through credit society Rs. 16 per acre, the cost of cultivation. These societies get their finances from the central co-operative banks. On delivery *kapas* is weighed in the presence of the cultivator, their samples are taken and tested for ginning percentage and then it is graded. When sufficient *kapas* has been received it is auctioned in the market. After realisation the accounts are made up. Cultivators receive the balance of their price and also a bonus on the quantity of cotton sold through the society.

Madras:—In Madras there are more than 175 sale societies. But these societies largely confine themselves to grant of loans against produce and have not done much

to promote marketing the produce of the members. When they undertake marketing they do so on a commission basis and never purchase the produce themselves outright. So they do not run much risk.

Bengal :—There are 73 purchase and sale societies most of them sell paddy.

Punjab :—In Punjab there are 20 co-operative commission shops which sell the produce of their members on commission. Every member delivering his produce for sale may be given at the discretion of the manager an advance not exceeding 75 p.c. of the estimated market value of such produce, the balance of account is cleared on the sale of produce.

U.P. :—In United Provinces a scheme of marketing agricultural produce has been put into operation since 1939. The scheme contemplates the organisation of marketing unions at important *mandis* in the province. All the societies operating within a certain distance become members of the union.

There are nearly 200 centres in all the districts of the province and the commodities marketed are in the main cereals and oil-seeds.

Cane development and Marketing Societies :— In the United Provinces there are 839 primary cane societies which are affiliated to 66 central co-operative cane supply unions. The main function of these societies is to develop cane cultivation and supply cane to factories. Usually the growers are direct members of the union and are in general meetings represented by delegates elected from every village. The delegates elect the directors who along with one or two nominees of the cane development officer and collectors and in many cases of the sugar mills form the board of directors.

The development of cane embraces the supply of improved cane and the establishment of late and early

ripening varieties in suitable proportions, introduction of better methods of cultivation, counteraction against excessive and improper ratooning and lastly preventing measures against pests.

The objects of marketing are to ensure proper price and correct weighment to the growers, to regulate supplies and above all to organise growers so that they may learn to adopt agricultural practices and arrange for cheap supply of credit. The usual procedure is that an elaborate surveying of the cane available with members of the societies is made before the crushing season and on the basis of it roasters for the supply of cane are prepared. Requisition slips are issued to members two days ahead of the date of supply and the on weighbridge the society's representatives and clerks watch weighments and maintain records of supplies. Supervision is also exercised at the time of payment of price. The total quantity of cane supplied by the cane unions reaches near about 75 p.c. of the cane crushed in U.P.

In Bihar there are 28 cane marketing unions and above 800 cane growers societies. They supply cane to sugar factories and ensure a reasonable return to the members in time.

Milk Supply Societies:—The provinces of Bengal, U.P. and Madras deserve special mention in regard to co-operative milk supply societies and unions. Milk supply societies are organised in villages where milk is produced and they are affiliated to a milk supply union situated in the neighbouring city in which the distribution and sale of milk takes place. The Calcutta Milk Supply Union is not only a pioneer in this line in India but one of the biggest. It has more than 126 societies affiliated to it and sells milk and milk products worth more than Rs. 3 lakhs annually.

In Madras there are nearly 90 milk supply societies and 15 milk supply unions. The Madras Co-operative Milk Supply Union had 14 societies affiliated to it. In the city of Madras it has 44 depots for the sale of milk and it sells milk and milk products worth a little less than Rs. 3 lakhs. In the United Provinces the Lucknow Milk Supply Union is the most important, 13 milk supply societies are affiliated to it. There are also 7 milk societies at Allahabad and one each at Benares and Unao.

Ghee Societies:—It is to ensure the supply of unadulterated ghee to the consumers and to secure highest possible price to the producers that the organisation of ghee societies was taken up in the United Provinces. There are at present a little less than 700 societies with a membership of a little less than 10 thousand persons in the Province.

The societies are organised on the principle of one village one society. Every person who has a cow or she-buffalo can become a member of the society. As soon as a milch animal of a member calves the society enters into contract with him for a fixed quantity of ghee. The rate is fixed at Rs. 8 to 10 less per maund than the market rate in contrast to Rs. 15 to Rs. 20 per maund given by the ghee merchant. The whole of the contract money is paid to the member in lump sum. Ghee is weighed every fortnight by the Punchayat of the society.

The Ghee Societies are affiliated to six central Co-operative Ghee Unions. Mostly the societies have been organised in Etawah, Agra and Mainpuri Districts of the Western United Provinces. Besides these districts Meerut, Bulandshahr, Etah and Muttra also have a considerable number of societies.

CONSUMERS CO-OPERATIVE STORES.

Rochdale Pioneers:—The 28 flannel weavers of Rochdale in England were the great pioneers of the

co-operative consumers movement and the consumers movement in all most all the countries of the world has adopted it as their model. Therefore it is necessary to study their model.

It was in 1844 that these 28 flannel weavers opened a small store of groceries in Toadlane with Rs. 28 as their working capital. They collected capital by subscribing 2d. and 3d. per week. They waited till shares were fully paid and then began operations with only 5 articles butter, sugar, oatmeal, candles, and flour.

They insisted upon the principle of cash payment their constitution provided that the society should be controlled through a committee elected by them that each member should have only one vote at the general meetings of the society. Goods were to be sold at the ruling market price and the savings affected in trading were to be divided after providing for reserve fund among members in proportion to their purchases. Every member was required to purchase his requirements from the stores only. Stores would sell articles of genuine quality of full weight or measure.

The success of the Rochdale store led to the establishment of similar stores in England. Later on these stores in order to overcome difficulties arising out of the dealings with wholesale dealers established the co-operative whole-sale society in 1863 which purchases things direct from the manufacturers and gets certain articles manufactured in its own factories. Thus the individual member of the primary co-operative consumers stores is saved from paying profits to the retail shop-keeper, wholesale dealer in some cases to the manufacturer as well. Thus the object of the consumers co-operative movement is to eliminate the middlemen altogether and in those industries where it is possible the producer as well.

Consumers Stores in India :—There are consumers stores in most of the provinces and states. But nowhere have they made any marked progress. In a general survey of the consumers movement in India as a whole, the Provinces of Madras and Bombay in British India and Mysore and Cochin in Indian States may be specially mentioned. In Madras there has been a rapid expansion of stores during the war time (1940) and their number reached over 400. Attempts have also been made to start special societies for the benefit of working classes who are affected most by increased cost of living. In some areas stores have been federated into a wholesale society for the purchase of their requirements in bulk. Sufficient time has not elapsed to assess future prospects of these stores. Their expansion has been too hasty and a large number of them are bound to be liquidated soon after war.

The Triplicane stores is of course still the outstanding example of the successful stores. There are 33 branches of this store in different parts of Madras. Its monthly sales are round about a lakh of rupees.

Bombay had 30 consumers stores with sales amounting to Rs. 6 lakhs during a year. In Mysore there are 22 stores with a working captial of 22 lakhs. In Cochin there are 20 stores with their transactions to nearly 10 lakhs. A number of students' stores have been organised in most of the Provinces and States.

The consumer stores movement has been a failure so far in India. The following are the causes of its failure; and insignificance :—

1. The wholesale and retail merchants work on very slender margins, making it difficult for a co-operative stores to compete with them.

2. The store movement in India is largely confined to middle classes unlike that in western countries which is essentially a working class movement. To them a little

saving at the end of the year in the form of bonus is not very attractive and the bania supplies them all the requirements on credit and accepts payment after a month and supplies all their requirements at their very doors. Stores cannot offer these facilities to their members.

3. The worker in Industrial centres is migratory and is under economic bondage of the grocer owing to his being in debt to him. He supplies Ata-Dal etc., on credit and on the wage day he practically secures the full wage of the worker. Therefore consumers stores have not been established for workers in India.

As far as villages are concerned their requirements are very few and which cannot be profitably supplied by the stores. Recently seed stores have been established in some parts of India to supply seed to the farmers but otherwise there are no stores in villages in India.

BETTER LIVING SOCIETIES.

These societies have been developed in the Punjab and United Provinces. They are really efforts in the direction of rural reconstruction. In the Punjab which was the first province to develop better living societies attention was mainly concentrated on reduction of expenditure on marriages and other ceremonies, pitting the manure, improving the sanitation of the village etc. There are nearly 300 such societies in Punjab. The members have not to pay any contribution but they have to obey certain rules as regards curtailment of social expenses, sanitation etc. and the defaulters are made to pay a fine.

The better living societies in the United Provinces are under the supervision of the Rural Development Department which received considerable encouragement and impetus during the regime of the Congress ministry. In fact the scheme of the U.P. Government was to set up 30,000 societies to cover 35,000 villages in 5 years. These

societies are the village units of the rural development work in rural areas. The ministry resigned and as a measure of war economy the scheme was suspended. There are more than 4,000 better living societies in the province doing useful work.

Industrial Co-operative Societies :—Industrial Societies for both artisans and peasants have been recently established in all the provinces but they have generally speaking failed to achieve any substantial results. The greatest success has been achieved in organising the handloom industry on co-operative lines.

A real impetus to the development of handloom weaving industry has been given since 1935 when the Government of India made grants to the provinces to be spread over 5 years for subsidising the industry in order to arrest its deterioration. This together with the stimulus given by All-India Village Industries Association and All-India Spinners Association has provided an ample scope for the development of the village handloom industry. For the revival of the village arts and crafts and for small and cottage industries, co-operation for purchase of raw materials, provision of credit and finance, and for the marketing of the finished products will be a great boom.

The weaver's societies have had to face many difficulties, (1) the indifference and ignorance of the weavers, (2) the difficulty in selling the finished products, (3) the vested interests of the master-weavers and indebtedness of the weavers to the former and the merchants, (4) weavers unbusiness-like methods and scarcity among them of capable men for running societies, (5) wide fluctuations in the price of yarn. Hence the weavers societies had a chequered career.

Madras has been the pioneer in organising handloom weavers societies. There are nearly 200 weaving societies with over 13,000 weaver members. These

weavers societies are affiliated to the Madras Hand-Loom-weaver's Provincial Co-operative Society which was established in the year 1935. The provincial society, besides subsidising the affiliated societies to meet the cost of management in the initial stages, arranges for supply of yarn, and makes advances against finished goods. It provides technical advice to societies in improving the patterns and markets the finished goods. It also maintains a calendering and finishing plant.

In Bombay there are over 40 weaver's societies. Nine industrial Associations were organised for improving and marketing handloom products with the aid of Government of India subsidy. The objects of these Associations are following:—To supply improved appliances on hire purchase system or otherswise. To supply raw materials, to advise weavers as regards improved patterns and designs to undertake finishing processes in dying and printing, to market the finished products. To fulfil these objects each association has to open a shop at its headquarters and a composite sales depot has been established in Bombay city.

In Punjab there are over 200 weavers societies having similar objects mentioned above which are affiliated to the Co-operative Industrial Bank, Amritsar whose area of operation is entire province. For marketing finished goods, sales depots have been opened in Lahore, Simla Delhi, Amritsar and other important centres which sell the goods of these societies.

In U.P. the well known weavers societies are Mason's industrial federation Bara Banki, Sanidla industrial stores, Benares, Tanda, Fyzabad, Cawnpore, Agra, Etawah, Gorakhpur and Basti weavers societies.

Weavers societies have been organised in almost all provinces but they are not very successful. They depend upon government orders. The condition of hand-

loom weaver has gone worse due to abnormal rise in the price of yarn during recent years.

Insurance Societies :—Co-operative Life Assurance Societies have made good progress in Bengal, Madras and Bombay in British India and Hyderabad in Indian States. The Bengal Co-operative Insurance Society (1929). The Co-operative Life Insurance Society of Bombay (1930). The South India Co-operative Insurance Society (1932) and the Co-operative Insurance Society of Hyderabad (Deccan) are worth mentioning. In Madras recently a Co-operative Fire and General Insurance Society embracing all other branches of insurance other than life such as fire, motor, accident, fidelity etc. has been registered.

House Building Societies :—These societies have made some progress worth mentioning in Bombay and Madras. In Bombay there are 100 housing societies and Madras there are nearly 125 house building societies. The Madras Societies are individual ownership societies while that of Bombay are tenant ownership or tenant co-partnership societies. In other provinces and states as well a few housing societies have been established. It has so far been a middle class enterprise and the problem of providing decent houses for poor working classes and peasants both in the towns and villages remain still unsolved. The provincial Governments should encourage such societies for poor persons specially for labourers and farmers.

Achievements and Defects of Co-operative movement :—The co-operative movement in India suffers from many serious defects. In fact the movement is languishing in most of the Provinces. The movement totally collapsed in Bengal, Bihar, C.P. and Berar. Unless re-organisation is carried on it is difficult to pull it through morass of decadence. It has been well said that co-operative movement in India is not a movement but a state policy.

As far as co-operative credit movement is concerned frankly speaking there is no difference between the credit provided by the Co-operative Credit Societies and the money-lenders. As regards the supervision exercised in granting loans and the pressure exercised in collecting over-dues there has been non-existing in practice. This is proved by the staggering figures of overdues accumulating in all the provinces and Native States in India. The overdues vary between 50 p.c. to 95 p.c. in different provinces of India. Co-operative Credit Societies in India have been divided into A. B. C. D. & E. class societies according to their financial soundness and their co-operative spirit. The progressive deterioration of the movement all over India can be seen from the fact that number of societies which approach near co-operation ideal *i.e.* A & B class societies are a little more than 10 p.c. of the total while D & E class societies which are fit for liquidation abound. Nearly 10 p.c. of the societies are always in liquidation and if strict scrutiny is made and the society are judged from strict financial point of view and co-operative standard more than 50 p.c. will have to be liquidated.

The non-credit side of the movement was neglected so far and it is recently that it has attracted the attention of the Co-operative Departments. During the recent years there has been a hasty organisation of purchase and sale societies, industrial societies, stores etc., and time has not come yet to assess their value. But signs are appearing which go to show that even they are not working very successfully. The weak ones will have to be weeded out very soon.

A correct evaluation of the co-operative movement is not an easy task. We will briefly summarise the achievements and the defects of the movement :—

Achievements :—

(1) *All round reduction in the general rate of interest in rural areas.* There is no doubt that Co-operative Credit

Societies have introduced a rival of the money-lender in villages where he enjoyed a monopoly before and thus have forced him to bring down his rate of interest and be more lenient lest a society may be started in his own village or if it already exists his clients may join it.

(2) *Increasing encouragement to saving and investment* :—Where co-operative societies have been working successfully for a considerable period habit of thrift has been inculcated to some extent and deposits received.

(3) *Decrease in consumption borrowing* :—Societies though give loan for unproductive purposes yet they discourage it and restrict it.

(4) The growing morality and independence of outlook of the cultivator and the business training which he receives while he manages his society.

(5) Increasing interest in rural matters created in the minds of urban capitalists and workers.

Defects :—

(1) There is an excessive and vaxatious official control which makes the movement mechanical and checks the development of the true co-operative spirit, self-help, self-reliance, self-responsibility among the members. It was natural that State had to take the initiative in starting the co-operative movement in India. It is proper that Government did not adopt the policy of financial spoon-feeding because it is very undesirable. But as regards control and supervision the official control has been very rigid and all embracing. In spite of the recommendations of Maclagan Committee, and Central Banking Committee and co-operators plea the tendency to officalise the movement is on the increase. This is the reason that average member feels that co-operative societies are 'Sarkari' institutions and sincere and honest honorary workers keep aloof from the movement. The right thing

to do is to hand over the movement in the hands of non-officials.

(2) *There is excessive preponderance of credit societies*:—One of the main reasons which have belied the expectations of all co-operators that co-operation would prove a panacea for all ills of villages, that it would free the village peasant from the clutches of the money-lenders and would lead to the fructification of agricultural profits in the pockets of the cultivator is this over-emphasis on co-operative credit to the exclusion of other aspects of agricultural improvement. Unless co-operation increases the cultivator's income so as to enable him to save and not to borrow, in other words unless he is placed on a surplus economy no amount of credit co-operation can improve his economic condition. It is a happy sign that this defect has been realised and non-credit societies are being started.

(3) There is a lack of knowledge and proper understanding of co-operative principles and essentials of rural-credit among members. The members of co-operative societies are mostly ignorant of co-operative principles. They do not realise that the society is their body and this is a movement of self-help and mutual help. Unless they are acquainted with the fundamentals of co-operation and taught how to manage the affairs of their own societies unaided by outside agency the co-operative movement cannot develop on sound lines. Efforts must be made to educate the village members and Punchayatdars in the principles and working of co-operative movement.

(4) Audit is defective partly because of paucity of auditors and partly because audit, supervision, and inspection which are allied functions are carried on by different agencies and this causes overlapping and waste of efforts and money. Inefficient audit causes mismanagement embazzlements, and loss of public confidence. For efficient audit, supervision and inspection of societies, districts

co-operative unions should be formed of the primary societies in that district. And such district unions should be affiliated to the provincial co-operative union. The district unions should maintain an efficient staff to audit, supervise and inspect the societies.

(5) *Management of the Co-operative Societies is very defective*:—The managing committee in most cases usurps all the powers of the general meeting and the influential members appropriate large loans so that a few members benefit by the society. The managing committee members are sometimes the greatest defaulters and do not pay their instalmens and therefore they do not insist on punctuality of payment from other members. Loans are recklessly given without any discretion. All this results in excessive overdues. No effort is made to find out whether the borrower member utilises the money for the very same purpose for which loan was taken or it is spent on some other purpose. Proper distinction between various forms of loans is not made, accounts are not kept upto-date nor the assets of the societies are revised carefully. Thus in the words of the Governor of the Imperial Bank of India "The fundamental principle of true co-operation is lacking, overdues are highly excessive, Audit is defective, control is inefficient."

(6) *Financial management is also not based on very sound basis*:—Societies finance more on the basis of assets than paying capacity which is against the spirit of Raffeisenism. Funds are inadequate and the members do not get sufficient credit so that they are forced to borrow from other sources. It takes unnecessarily long time in securing loan from a co-operative credit society.

(7) Their are many organisational defects such as bad selection of members, the members cancel their old debts when they join a society, Internal dissensions are

many. In some cases the Officials of the Society, Banks, and Department are not honest but in many cases they are incompetent. One or two influential members dominate the society and the rest do not take any interest in the affairs of the society.

Besides the above defects there are several dangers which threaten the movement. They have been analysed into :—

(1) The tendency to officialise the movement too much and to leave too little for private initiative. (2) The eagerness of the enthusiastic organisers to rush the pace of the movement at the expense of intensive development. (3) The opposition of the money-lending class which has been growing in persistence. (4) A few members monopolising the work and leaving too little room for the incentive of others. (5) And the abuse of power in collection and distribution of funds.

In our keenness to develop an organised system of credit to replace the local money-lender we are apt to forget that there are large numbers of the agricultural population who are below the economic level. They may be fit objects for state help or public charity but they cannot hope to rise in economic scale through the medium of co-operative credit only. This is why it is necessary to place him on surplus economy by launching a campaign of all-sided co-operation.

The defects of the movements need to be remedied and in this connection the suggestions of the Reserve Bank Agricultural Credit Department noted above should be kept in mind. The only addition to the suggestions of the Reserve Bank is to hand over the movement to the non-official control. Unless sincere, honest and real sympathisers of peasants and poor persons do not come and take over the charge of the movement, and it

is manned and managed by Government Officials, title hunters, and favour seekers of Government the movement is bound to remain lifeless.

Future of the Co-operative Movement:—The Reserve Bank of India has observed that the question of agricultural finance is bound up with that of improvement of agriculture so as to render it more profitable, a less precarious calling. But it has characterised the Indian Agriculturists as "thriftless, improvident, and unprogressive" and argued that the co-operative movement cannot thrive in such a community. So according to the Reserve Bank Agricultural Credit Department the future of co-operative movement is not very bright. But it is wrong characterisation of Indian agricultural community. The average Indian peasant is on the whole an honest and diligent tiller of soil whose diet is sparse, whose wants are few, and whose standard of living is low. He lives on the very margin of subsistence. Very often he borrows not because he can but because he must. His chronic indebtedness is the result of his poverty. Without removing the factors which contribute to his chronic poverty, indebtedness cannot be liquidated. The increasing dependence of population on agriculture, the decline of rural industries, the oppressive burden of land taxation, the uneconomic system of land tenure, dependence on overseas markets for sale of raw materials and other economic factors have been largely responsible for the agricultural backwardness and the poverty of the cultivator. The aim therefore of the co-operative movement must be to improve the economic condition of the masses and to increase their income and purchasing power. But unless there is a genuine sense of identity of political and economic interests between the people and the state no such programme of rural development can be successful. Once this condition is fulfilled all the rest can be easily achieved.

NEW TENDENCIES IN THE CO-OPERATIVE MOVEMENT.

Multi-purpose Society:—It has been mentioned above that the Reserve Bank suggested in their Statutory Report that the primary co-operative credit societies should be replaced by multi-purpose societies which should be organised on as wide a basis as possible in regard to the scope of their activities and the needs which they seek to satisfy as well as the classes of people in the village to be included as members. Starting with credit for current needs a society may get the old debts of its good members liquidated through a land mortgage bank, introduce better business and better monetary return by inducing its members to sell their produce co-operatively, ensure their growing improved varieties of crop by purchasing seeds for them, save on purchases by arranging for the purchase of their other needs jointly and at profitable rates on an indent system without incurring any risk or liability, save litigation expenses by effecting arbitration, improve the out-turn of crops by a consolidation of holdings, supply of pure seeds and improved implements, implement the income of its members by inducing them to take up subsidiary industries, introduce better living measures by adopting bye-laws by common consent which will curtail ceremonial expenditure and remove insanitary habits, provide medical relief and so on. In short the Reserve Bank recommended that the existing credit societies should be converted into multi-purpose societies and made a centre of activities of the whole village. It was not, of course, suggested that the existing credit societies everywhere should immediately assume all the functions mentioned above, but a steady extension should be secured in the scope of their activities so as to ultimately bring the whole life of the cultivator within its ambit.

Arguments against the Multi-purpose Society: This suggestion of the Reserve Bank led to a controversy

and some very eminent co-operators expressed themselves against the idea of converting credit societies into multi-purpose societies and the Royal Commission on Agriculture in India had also declared themselves in favour of the single purpose society. The following arguments against the multi-purpose society are advanced by them: (1) The nature and the scope of its operation being complex its control would fall into the hands of one or a few intelligent or educated individuals which is against the true spirit of co-operation, (2) The accounts of varied activities would be likely to become mixed up and thus conceal the true position of any one type of activity, (3) The failure in one respect might entail the winding up of other useful activities. The alternative proposed by the critics of the multi-purpose society was the formation of a specialised society for each separate object with its own appropriate constitution, area, membership, liability and system of accounts.

The thirteenth conference of Registrars of co-operative societies held in Delhi in 1939 resolved that experiment with multi-purpose societies should be made. In Bombay, Madras, U. P. and Baroda multi-purpose societies have been started. There are more than two thousand multi-purpose societies named "Village Banks." in U.P. They are in an experimental stage and have undertaken a limited range of additional activities besides credit, mainly the supply of domestic and agricultural requisites and marketing of agricultural produce. The Registrar of co-operative societies has also expressed the desirability of dealing with whole man and as such multi-purpose societies are being established there. Coorg, Travancore and Mysore have also started a few multi-purpose societies. These societies in Bombay and Madras are being organised with limited liability and an area of operation extending several villages, while in U.P. and Baroda they follow unlimited liability and the single village.

Unlimited *versus* **Limited Liability :—**Another controversy which has assumed greater importance in the co-operative movement in India is on the matter of liability. Some eminent co-operators and the Madras Committee on Co-operation (1940) are of the opinion that unlimited liability has outlived its utility. Their reasons are as under :—

(1) At the time of liquidation it works harshly for members who are non-borrowers and non-defaulters and bring the movement into disrepute. Due to its fear better-to-do agriculturists keep themselves away from it. (3) It is a merely contributory liability to be enforced only at the time of dissolution. (4) Its assumptions of mutual knowledge, mutual watchfulness, and care, and mutual control did not correspond with the facts of village life to-day. (5) The personal credit is in practice being replaced by material security in the grant of loans.

But there are equally strong supporters of unlimited idea, their grounds are following :—

(1) That the authoritative opinion of many committees and commissions favoured unlimited liability. (2) That unlimited liability was an essential and basic principle of co-operation "each for all and all for each" which was designed to foster collective—responsibility and corporate feeling. (3) That its replacement would undermine mutual trust and mutual knowledge and transform co-operatives to agencies of a centralised banking system. (4) That the vigour of unlimited liability was in fact softened by departmental rules. (5) That a change would shake the confidence of the creditor and affect the flow of funds into the movement. (6) and that unlimited liability was essentially suited to the requirements of men of small means without material security and with personal credit based on their character, integrity, and productivity of their labour. The agricultural credit Department of the Reserve Bank has also expressed itself in favour of unlimited liability.

Rehabilitation and Reorganisation of the Movement:—The reason why co-operators, both official and non-official, began to seriously think of these and other problems affecting the very foundation of the co-operative movement was the failure of movement to satisfy the expectations and total collapse of the movement in Burma and partial collapse in Bengal, Bihar, C.P. and Berar. The co-operative movement had deteriorated to such an extent that urgent reorganisation measures were found necessary in the above mentioned Provinces. In other Provinces as well rehabilitation of the movement was called for. This is why there was so much enquiry and close thinking on the future shape of the movement.

The General Scheme of Rehabilitation:—Though the schemes to rehabilitate the movement adopted in different provinces differed in detail according to local conditions but their general outline is more or less the same. The general method was to examine the loans due to societies with a view to scaling them down to the paying capacity of the borrowers and to make these reduced amounts repayable in instalments within a number of years not exceeding twenty. The lands that came into the possession of the societies in default of payment of dues were to be returned to the original owners on the hire-purchase system. Instalments of repayment were fixed after reducing the debt of the defaulting member and the land was to be re-transferred to the original borrower on payment of final instalment plus a nominal amount of purchase money. Under an alternative plan the society would remain a mortgagee for the borrowers' land, and the mortgage would be redeemed when all the instalments of the reduced debt were paid off.

The societies were to write off the bad debts from their own funds (paid up capital and reserve fund) and if their assets fall short of their liabilities, the central banks

were to reduce their claims proportionately. Those societies which had already been taken into liquidation were to be wound up speedily. The bad debts and losses of the central banks were to be written off from their capital and reserve. If the assets of the central banks were to be found less than the liabilities, the banks were to approach their creditors for reducing their claims proportionately. Their claims were thus reduced in Bihar, C.P. and Berar and Bengal.

War and Co-operation :—War has affected the movement in various directions. Due to war conditions the prices of agricultural commodities went up very high and the cultivator's burden of indebtedness was considerably lightened. This resulted in an all-round improvement in recovery of debts and a lot of dead weight of over-due debts was lifted from the credit societies. But the co-operative departments being cautious did not encourage the organisation of more credit societies.

But the war gave an impetus to producers' societies and the consumers stores. Co-operative departments were to take up the work of war supply and large number of producers' societies were set up. This gave a fillip to the expansion and development of cottage industries. But these societies are bound to disappear after the war boom is over unless the State comes to their help. Similarly under the stress of war the consumers' store movement has also developed to a striking extent but it is also a temporary phase and after the war is over and normal economic conditions prevail they are bound to close down unless special efforts are made to strengthen them.

Future of Co-operation :—The co-operative movement in India did not meet with success as it happened in Ireland, Denmark and Germany. The main reason is that our agriculture is a deficit economy and unless it is transformed into a surplus economy the

co-operative movement cannot make much headway in our country. The Reserve Bank has rightly observed that the question of agricultural finance is bound up with that of improvement of agriculture and that the co-operative-credit movement can only flourish when agriculture prospers. The aim of the co-operative movement should be to improve the economic condition of the masses and to increase their income and purchasing power. But unless these factors economic, social and political which are responsible for the proverbial poverty of the Indian village population are not removed the wheels of co-operative machine will not be set in motion and prosperity will not emerge. This again forces upon our minds the need of a comprehensive *national planning in which co-operation will have to* be used for rehabilitating our rural economy. Indeed co-operation will have a prominent place in our programme of national reconstruction.

CHAPTER XXXI.

RURAL RECONSTRUCTION.

The genesis of the movement:—The foregoing survey of the economic life in our country should convince every open-minded student of the awful conditions and the great backwardness that prevail in this vast land of rich natural resources on the one hand and extreme want and poverty on the other. That facts of such abject economic depression, social ostracism, religious fatalism, and moral putrefaction could not have gone unnoticed for long by our people and their leaders, and also ultimately forced themselves upon the attention of an irresponsible foreign bureaucracy, was not very surprising. The tremendous loss of man and material that was thus going on was simply astounding, and an attempt to cry halt to all this was felt by all to be the most urgent need of the hour. It was known and realised at the same time that the teeming millions of India lived not in the modern cities of Bombay and Calcutta, which also, however, had their share of dirt and squalor and poverty in ample quantity, but in her lakhs of villages which mark the widespread lands of the Indian continent. The logical conclusion that followed was that if Indian life is to be rehabilitated and enriched, it is the resuscitation of these 7 lakhs of her villages that must demand our first attention. 'Rural Reconstruction' thus became the 'slogan' and the 'fashionable slogan' of the day and people and their leaders were found repeating it parrot like to which at a late hour and in a faultering language, the foreign government of India also added their tune. The idealization of a simple rural civilization, and the stigmatizaion, on the contrary, of the urban civilization of the west with its accompanying unemployment, exploitation, unhealthy and insanitary overcrowdings in slums, and last but not least the devastating militarism

and the modern imperialism, also helped in making the 'Rural Reconstruction' movement very popular. Under the inspiring leadership of Mahatma Gandhi, the Indian National Congress and the allied institutions of the All-India Spinners' Association and the All-India Village Industries Association also did nuch in emphasising the importance and need of rural reconstruction in India. In fact the Gandhian economy of decentralized production and the ideal of a handicraft civilization provided the Rural Reconstruction movement in India with the background of a whole life-philosophy. The creative intelligence of men like Rabindra Nath Tagore who wanted to raise a modern superstructure of Indian life on the moorings of rich cultural heritage of ancient India, also supported and encouraged the movement. Thus to cut a long story short, we find that 'Rural Reconstruction' in India did not remain altogether a cry in wilderness but actually assumed to some extent the form of a living and constructive movement in the country which attracted the attention of the whole nation and also of the Government. Before we subject the various attempts made in this direction and the underlying notion of village revival to a critical view-point, it is essential, however, to clearly lay down the problems that face an average Indian village at the present time. Only then a correct appreciation of the efforts so far made can be possible and future need for any kind of reorientation in them, if felt necessary, can be realized.

The problem stated:—What is the picture that an average Indian village presents even to a casual observer? What are the problems that face our rural folk and demand an urgent solution? Dr. Rabindra Nath Tagore, the great Indian poet, wrote at one place comparing villages with women in the following words. "It is the function of the village, like that of woman, to provide people with their elemental needs, with food and joy, with the

simple poetry of life, and with those ceremonies of beauty which the village spontaneously produces and in which she finds delight. But when constant strain is put upon her through the extortionate claim of ambition; when her resources are exploited through the excessive stimulus of temptation, then she becomes poor in life and her mind becomes dull and uncreative. From her time-honoured position of the wedded partner of the city, she is degraded to that of maid-servant, while in its turn, the city, in its intense egotism and pride, remains unconscious of the devastation it constantly works upon the very source of its life and health and joy." He further remarks, "The reckless wastage of humanity which ambition produces is now seen in the villages, where the light of life is being dimmed, the joy of existence dulled, the natural threads of social communion snapped every day. It should be our mission to restore the full circulation of life's blood into these maltreated limbs of society; to bring to the villages health and knowledge; wealth of space in which to live; wealth of time in which to work and to rest and to enjoy; respect which will give them dignity; sympathy which will make them realize their kinship with the world of men instead of their present subservient position." Such is, then, the problem of rural reconstruction put in a nutshell. It is the problem of rebuilding not any one or two aspects of rural life but the whole of it. A tremendous loss of man and material is constantly going on in our country-side and the problem is to stop the ruinous process in future. There is first the question of economic rehabilitation, which, in fact, is the base in which a living and vital edifice of village life can be built. It is a question of taking out the agricultural and the handicraft economy of our villages from the depth of depression in which they are at present sunk. The impact of western civilization and the coming in of the modern machine with its tremendous power of producing articles of great variety and wonderful nicety have dis-

turbed the whole fabric of our rural economy. Our cottage industries have decayed and died out; some have certainly survived but have failed to receive necessary care and thought and are at present in a very depleted condition; only a few have met the competition successfully and have held their own. Hundreds of thousands of people engaged in handicrafts, occupying a definite place in the old order of things, found their occupations gone, and either reverted to cultivate a small strip of land, that they could get as their share of the ancestral property, or increased the number of landless labourers. The result is a minus increase in the pressure of population on land, and the national economy of our country to-day due to this exclusive and excessive dependence of the people on agriculture, has been reduced to a gamble in rain. Excessive fragmentation and scattering of land, unscientific methods of cultivation, defective financial organisation, crushing burden of land and indebtedness combined with lack of subsidiary occupations, have brought our rural folk to the verge of bankruptcy. Their poverty runs like a red thread in the whole fabric of their life. They live in open but dirty and insanitary villages and in small huts miserably built of earth with little or no facilities for recreation and cultural pursuits to reduce the drudgery and dullness of life and to give it real meaning and content. The villages are regular abodes of all sorts of diseases which take away annually lives of many, and sap away the energy and vitality of many more making them a drag on society. Educationally, they are totally neglected and ignorance is their only bliss. Last but not least their conservatism binds them to traditions that have worn out their fatalistic outlook and enervating inertia and pessimism in life devoid of colour and variety, as much the result as the cause of circumstances in which they live, mars their initiative and the observance of many fatuous and meaningless social and religious ceremonies aggravate their

economic distress—while all combine to hold back the hands of the clock of progress. In one word, our villages to-day have become places of economic depression, social reactionarism, educational backwardness, unhealthy and insanitary existence, political subjection, cultural ruin, moral terpitude and spiritual sterilization and our problem is to infuse not only wealth and progress but life and happiness in them. And how is this to be done, is the great question of the day?

A few experiments in Rural reconstruction:— The problem thus stated, let us now throw some light on the various efforts that have been so far made in the direction of reconstructing our village-life both by government and private agencies. We shall first consider the well-known Gurgaon Experiment in the Punjab conducted by F. L. Brayne, who was the Deputy Commissioner of the Gurgaon District.

The Gurgaon Experiment:—Mr. Brayne put before himself an ambitious scheme of rural-uplift that envisaged the "improvement of farming, sanitation and education as well as social reform" and the central feature of the scheme was that of 'village guides' who were given necessary training and were expected to function as "Guides, Philosophers and Friends," of the people in villages and who would act as a kind of channel through which the expert advice of various departments concerned with rural welfare will pass on to the villagers. And to keep these village guides always in contact with new ideas and infuse in them necessary spirit and enthusiasm, the Gurgaon uplift scheme attempted to supply 'a strong central driving force'. The scheme called for the co-operation of all those, especially the village folk themselves, who were interested in the work of rural uplift. Lecture, song, drama, magic lantern, cinema, and even the loud-speaker have been made use of in making the scheme a success. About the results of the experiment, it may be

sufficient to remark that it has not fulfilled the expectations of its originator. Mr. Darling criticising the experiment in his 'Rusticus Loquitur' points out the causes of the failure. First, the whole programme of uplift was imposed upon the reluctant villager from above; secondly the selection of village-guides was not satisfactory, and their training was inadequate and supervision insufficient. Lastly, while framing the programme of work, sufficient importance was not given to varying local conditions. Another lesson that emerges from the Gurgaon experiment is concerning the need of a permanent organisation to guide the whole work of rural reconstruction. But for lessons from this and other experiments in rural uplift, we must wait till the end of our discussion. All that we need point out at this juncture is that the Gurgaon experiment has not prospered.

The Sriniketan experiment.—Another important effort at rural reconstuction has been going on at Sriniketan, which is about a mile and a half from the well known Santiniketan. It was in the spring of 1922 and under the inspiring leadership of Poet Tagore and his colleague Leonard K. Elmhirst, an Englishman, whom the poet met in the city of New York when on a visit to the U.S.A. and invited for some work in India, that an institute of Rural Reconstruction was brought into being. The object of this Institute of rural reconstruction is, in the words of the poet himself, "to try to flood the choked bed of village life with the stream of happiness." Its chief characteristic is to try to harmonise the two trends of the eastern and the western culture, one with its spiritual outlook on life and the other with its vast material progress and wealth accumulation. The idea is to retain the best in the ancient Indian culture and to build on its rich foundation a happy and prosperous village life in India which would also reflect the achievements of modern science and all that is good in modern life but adapted on the one-

hand to the historical and cultural traditions of our country and on the other to her present requirement and future aspirations. Thus the Sriniketan experiment differs in an essential respect from the others in the same field inasmuch as the former has the background of a whole philosophy of life that seeks to unite the best of both the eastern and the western civilizations. The programme of work followed by the institute is quite comprehensive and many-sided. On the economic side it aims at demonstrating to the farmers scientific and improved methods of agriculture at the institute's farm, introducing new crops, vegetables and small fruits and giving training to apprentices who would take afterwards to farming as a profession. Vegetable gardening and small fruit growing, dairy and poultry farming, cattle-breeding, and reviving of a number of local industries as well as such others as might be profitable to the village people, are some of the other economic activities that are followed at the Institute and are popularized amongst the neighbouring villages. The village welfare department of the institute looks to the all important problem of sanitation and health in the surrounding villages and is equipped with a well-qualified medical staff for the purpose. The educational work carried on under the supervision of this department consists in the running of a number of schools both for boys and girls, a rural circulating library and organising of lectures. Under the auspices of the department training camps are also held to train village boys as leaders of scouts in their own villages and to train youngmen for reconstruction and welfare work. There is also the Rural Experimental School to tackle the problem of rural education where a serious attempt is being made to fit the village boys for a useful and independent career in life and where emphasis is laid not only on book-learning but on manual and creative work so that the students may learn the lessons in self-help and good citizenship

as well as in the appreciation of beautiful things through the teaching of such fine arts as music and painting. Thus the rural reconstruction experiment at Sriniketan has for its objective the reconstruction of the whole life of the village people including such important aspects as economic and educational, social and cultural, and of health and sanitation. So far as the results of the various efforts are concerned, it cannot be denied that in many respects they have been fairly satisfactory in their limited spheres. But even here a distinction may be made. Success has been comparatively greater in the fields of health and sanitation and education and less in those of economic life, specially agriculture.

Y.M.C.A. Scheme:—Among private efforts, the reconstruction work done by the Y.M.C.A. in the Coimbatore District in the Madras Presidency deserves special mention. Their programme includes the "removal of illiteracy, improvement of agriculture, development of cottage industries, economic relief and the resuscitation of ancient rural institutions."

The A.I.V.I.A. and the A.I.S.A.:—The All-India Village Industries Association and the All-India Spinners Association are the two other institutions which under the guidance of Mahatma Gandhi have been doing some useful work in reviving the old handicrafts of the village. Paper-making, bee-keeping, paddy-husking, gur-making, oil-pressing, soap-making, and leather tanning are the industries that the A.I.V.I.A. have taken up. The work of the association is mainly confined to research, experimentation and teaching. To bring the available knowledge to the people, exhibitions are organised, books are published on the results of experiments and the two periodicals, the 'Gram Udyog Patrika,' and the 'Khadi Jagat' are issued dealing with the findings of the two associations from time to time.

A few other experiments:—A number of other experiments in rural reconstruction have also been made in different parts of the country from time to time. It is, however, difficult to give an account of or even mention all of them. The Benares division experiments, carried on under the guidance of Mr. V. N. Mehta, however, deserve some notice. The Panchayat was the chief agency employed for the purpose and attempt was made to help the work of consolidation of holdings, development of cottage industries, subsidiary occupations for the agriculturist, improvement of agriculture and also of roads as well as spread of education. The efforts of Sir Daniel Hamilton in developing the deltaic lands of the Sunderbans by establishing colonies there on modern lines have also been quite creditable. The experiment at Banasthali* was also a laudable attempt made in the heart of Rajputana. The common feature of all these efforts has been their localized nature initiated by the zeal of individual efforts. And naturally the success achieved has also been of limited importance, and cannot be said to have touched even the fringe of the problem that has been before the country all this time and that still continues to exist in as serious a form as it ever possessed.

The Government efforts:—As already remarked, in view of the increasing interest shown towards rural reconstruction by the people in the country, even the Government had to move in the matter. The first definite encouragement to the rural uplift movement from the Government came in the year 1935 with the announcement of a grant of Re. 1 crore by the Government of India for distribution to the provinces to be spent on schemes for the economic development and improvement of rural areas. With the coming of the popular industries in office especially the establishment of Congress ministries in a number of provinces, the movement for improving the lot of the poor

**See* Appendix at the end of the Chapter.

villagers got a great impetus. Schemes aiming at the encouragement of village industries, improvement of village communications, rural sanitation and recreation, medical aid, agricultural improvements, etc., have been promulgated in different provinces, *e.g.*, in Bombay, the Punjab, the U.P., the C.P. and Berar, Madras and Bengal. The Punjab and Bengal have the benefit of Rural Development Commissioners to look after the work and Rural Development Departments have been established in a number of provinces. And though the intervention of war and the resignation by the Congress Ministries have resulted in the slackening of efforts a good deal, yet the framework of departmental organisation and to some extent the work done by it still continues to be maintained and reconstruction of our village life remains a live issue, though temporarily submerged under the 'win the war' campaign, that must be tackled on sound and scientific lines in the post-war period by government effort if the country is to be saved from the tantacles of ruin and stagnation.

Conclusion :—The above description, though brief, of some of the experiments in rural reconstruction made either by official, or non-official or semi-official agencies is fraught with a number of important lessons concerning the problem of rural uplift in the country. The first thing that would strike even a surface-observer is that the efforts so far made have been not even a drop in the ocean and the problem of our decaying villages is as much threatening to-day as it ever was. In fact it would not be far from truth to maintain that the problem is being aggravated every day that passes and need for solution is becoming consequently more and more urgent. But this is not the most important lesson to be drawn. The more fundamental question is that of approaching the problem in a right perspective. For this a clear and scientific diagnosis of the nature of the problem is the first

necessity. It is a fact that our villages are life-less and poverty-stricken and streams of new life and new prosperity must begin to flow in them if our country as a whole has to become happy and prosperous. It is again a fact that all workers in the field of rural welfare have unanimously agreed that the problem is a many-sided one and its solution pre-supposes not any isolated effort in any one or two spheres of life but an all-sided programme touching the various aspects of the life of our rural population. Because life is an organic whole, and you cannot build and reform one part of it without touching other parts. You start with the work of health and Sanitation, and you will find yourself face to face with problems that are educational and economic in their nature because, as any one would readily agree, our poverty mostly explains our unhealthy and insanitary surroundings and our ignorance which in turn reacts upon our efficiency that certainly underlies our low income. Thus it is a vicious circle that stifles our life and stunts our growth and the only effective way to break it is to break it simultaneously at all the possible points. Another point that has also been emphasised again and again is that the success of any programme of rural uplift is ultimately based on changing the whole outlook of the people from a fatalistic pessimism to a self-reliant optimism for the future. In fact this is the crux of the whole problem, and it demands more serious thought than is generally given to it. It is to be very clearly understood that rural uplift is not the synonym for rural charity and it is no rural reconstruction either to open a charitable dispensary for the benefit of the poor villagers or to go into a village every morning or every week and conduct the programme of 'Gram Safai' (village sweeping). These and other things are good only so far as they create in the villagers a new sense of appreciating this reform or that. But the essential thing is to widen their vision; intensify their thought, and harness their energy in the work of

creating a new world and a new heaven here and now. But how is this to be done? The existing depressed outlook of our village folk is, in its final analysis, due to their highly depressing conditions of living which have been brought to such a depth of wretchedness that a little here and a little there hardly fills them with any enthusiasm. Our rural life is festering with deep and horrible wounds and mere surface-dressing would not heal them. They, in fact, need the surgeon's major operation otherwise our doom is certain and fast approaching. And no private effort, however rich and resourceful, is capable of undertaking the major operation. In fact limitation of this nature has been felt by private agencies working in the field of rural reconstruction. Syt. J. C. Kumarappa lays down the bare truth when writing about the sphere and work of the All-India Village Industries Association he says "Although agriculture is the base of all industries, we have not taken it up as it requires a considerable amount of special help in the form of state power to tackle it." This is an honest admission and the conclusion that follows is also unequivocal. If agricultural economy is incapable of being reformed or revolutionised by private effort, as only a fool would dispute it is, all talk of reconstructing our village life through private effort is either self-deception or criminal ignorance. Even the Royal Commission on Indian Agriculture was forced to remark "If the inertia of the centuries is to be overcome, it is essential that all the resources at the disposal of the State should be brought to bear on the problem of rural uplift." Thus our inference is absolutely undisputable that all talk of rural uplift is in the air so long as the man in the village is not inspired with hope for future and his present psychology of do nothing is changed into that of perfect activism. And you can neither inspire hope in him nor change his psychology by empty words and high-sounding slogans or a little of unimpressive patching here and patching

there when what is required is a wholesale transformation of the existing state of affairs. And this is not possible unless the State takes the initiative and the responsibility on its shoulders and is really fired with a spirit of doing good to the people at every and any cost. This is a very significant lesson that all experiments in the so-called rural reconstruction have really to give to us. But then the question does not come to an end even here. You have not yet reached at the height of the ladder from where only a correct and full perspective of the issue in hand would be possible. And this is the point that so far has not been emphasized and even the greatest of our leaders has passed it unnoticed. And this is the question of changing our very slogan of 'Rural Reconstruction.' It is important for all students of Indian economy to understand and once for all that the popular slogan of 'Rural Reconstruction' is, in fact, wrong and misleading. The correct slogan would be 'National Reconstruction' and if we have to confine here only to economic matters—the reconstruction of our national economy; this is not to be misconstrued as denying the importance of village economy in the nation's life. This is merely pointing out the much forgotten truth that just as rural reconstruction is an impossibility unless conceived in terms of the totality of village life, similarly rural reconstruction is impossible unless it is undertaken as an integrated part and parcel of the reconstruction of the whole of the economic life of our people. Only a few remarks would be sufficient to convince the reader of the truth of this view-point. Rural reconstruction involves obviously the reconstruction of the basic industry of our country—agriculture. But agricultural reconstruction requires among other things an occupational redistribution of our population; and how is this to be done unless the whole problem of economic reconstruction or planning is to be tackled at a time. And this is not the only point where such cross-relationships between

agriculture and other departments of economic life arise. And it is not only a case confined to agriculture. Reviving of our cottage industries also involves such a problem. If agriculure has to fit in with industry, within industrial sphere also a co-ordination and balancing of large-scale, medium-scale and small-scale industries would be inevitable. And again it is round this nucleus that you have to set up and build other supplementary departments of economic life like banking, currency, transport and several others. The sum and substance of all this discussion is that the economic problem before the country is not that of 'Rural Reconstruction' which is confusing the part with the whole but is that of planning the whole economic life of the nation. And it is to this all-important problem of economic planning that we propose to devote our attention in the next and the concluding chapter of this work.

APPENDIX.

(*A note on the working of 'Jivan Kutir' at Banasthali.*)

A very interesting and illuminating experiment in rural reconstruction was carried on at Banasthali, now the seat of the well-known Banasthali Vidyapith, in the Jaipur State, by a band of devoted and sincere workers for a period of full seven years and a half, a brief description of which would be found very useful in viewing the problem of rural reconstruction in its correct perspective, and in drawing some very important conclusions in relation thereto. 'Jivan Kutir' was the name of the rural Institute that was organised for the purpose. The programme of work envisaged was quite comprehensive and included agriculture, cattle-breeding, cloth-producing by hand, spinning and weaving, organisation of co-operative credit, education, medical relief and social reform. The idea behind the experiment was to see by actual experience as to what extent private effort can succeed in this field and what are the difficulties that come in the way. The area of work selected was fairly representative of conditions prevailing not only in the State but on the whole in the entire country. The population of the area concerned numbered about five thousand and was distributed between twenty to twenty-five villages. Bansathali was the centre and the head-quarter and on the average the number of workers came to between fifteen and twenty. All of them carried within their hearts the real desire to help the people with whom they had thrown their lot for the time being. They lived a truly rural life and worked like true comrades of the village people. They carried on the work of agriculture for self-experience rather than for introducing any agricultural improvements and the results confirmed the well-known truth that in India agriculture by itself is not a profitable proposition generally and exists on the whole in a condi-

tion of cost-price disequilibrium. It is the supplementary earnings of the agriculturist and his indebtedness that make his existence possible. Cattle breeding work was very popular but the villagers were found unwilling, because of their incapacity mostly, to pay for it, which was also the experience concerning education that was imparted through a number of night schools. Even a nominal school-fee would result in the number of students going down. About cloth producing the idea was to make the villagers self-sufficing at least in the matter of spinning all the yarn necessary for their clothing if not in that of weaving. The villagers had their raw cotton and leisure to work it out. The experiment was quite successful for a time so much so that a few villages had totally stopped purchasing their cloth from outside. But non-profitability from economic point of view in certain line of producton *e.g.* dhoties for the males, inability of the hand-produced cloth to meet the taste and fashion of the people especially of the women folk, religious sentiment against carding because it involved the use of 'Dhunki' (the carding instrument) which contained the string (Tant) that is made of something of the goats' body, and lastly the lethargy of the people encouraged by the ever-readiness of the Bania to sell on credit cloth to the villager, and also sometimes the difficulty of the agriculturist in saving his raw-cotton from the clutches of the creditor or his own need to dispose it of to pay the state revenue—turned out to be the so many weak links in the chain and naturally the work never acquired self-momentum and collapsed as soon as the guiding hand of the workers was off. The experiment in co-operative credit was on a limited scale and was carried on mostly with outside capital. The rigid personal supervision of the workers and their moral and personal influence were responsible for no bad debts incurring and the members were actually released from the exploiting hands of the notorious mahajan, their past debts

were either paid off by the society, or became time-barred or were turned more or less into bad debts. But when the whole experiment closed the co-operative credit societies were also wound up as it was not thought very safe to leave the capital in the hands of the villagers. The work of social reform was carried on through propaganda with music and lectures and produced some impression on the villagers. It is significant to relate that the ban on death-dinners was most bitterly opposed by members of the caste living in other villages and under the caste pressure people gave way. In carrying on this work of reform it was clearly experienced that there exist certain elements in the village society itself that would fight any such attempt in every possible way. The Brahman, the Bania, and those dependent or connected with the existing political and administrative machinery as the Thakurs, the Patwari and the Patel, are the reactionary forces, that must be encountered with. Another very important experience gained was that such localized efforts cannot be permanently successful because the outside forces are so strongly unfavourable and opposed to them. Hence the work cannot develop self-momentum unless it is simultaneously undertaken on a large scale. Only the State can do it. Regarding private effort the greatest limitations were both of finding the required number of workers with suitable qualifications and of resources to support them. Thus this brief experiment in rural reconstruction on a limited scale, started in 1928 and closed in 1936, has simply helped us in confirming the conclusions that we have already reached *viz.*, of the work rural reconstruction is of such a vast magnitude that only the State can successfully tackle it and its solution is possible only as an integral part of the full scheme of our economic planning.

CHAPTER XXXII.

ECONOMIC PLANNING.

In the last chapter on 'Rural Reconstruction' mention was made that the real problem that faces our country is not of reconstructing the life in the village which is impossible to do in an isolated fashion, but of planning on rational and scientific lines the whole of the national economy of which our rural economy is but an integral part. It is the purpose of this chapter to study the principles and policies of such a national economic plan.

The failure of the capitalist system and the question of planning:—It is a well-known fact that our present capitalist system of economic organisation has failed to ensure economic progress of the world community. In spite of what is called the conquest over nature and improved and scientific methods of production which have increased our capacity to produce to an extent unparalleled in the whole history of man, it has not been possible for us to end human misery and want. The present society has been reduced to a veritable mess and abounds in contradictions on every side. For example, there is economic over-production on the one hand and human under-consumption on the other; there is plenty for the few who roll in the lap of luxury and lead a life of a most frivolous nature and poverty for a vast majority which goes without even a decent standard of minimum civilized existence. We have periods of exceptional business and industrial activity with inceasing production, profits, and employment resulting in an all-round optimism at certain times, and periods of exceptional inactivity with trade depression and decreasing production, and increasing losses, and unemployment resulting in an all-round pessimism at others. Examples of such heart rending contradictions can be multiplied with-

out number, but it is no use doing it. The central fact that needs emphasis at present is that of glaring economic inequality between man and man as well as nation and nation which in its turn gives rise to inequalities in all the other departments of human life, moral, social, and political. And if any economic system has to fulfil its real purpose, it is imperative that on the one hand the existing economic inequality in society is ended and greater equity is introduced in the distribution of wealth, and on the other maximum efficiency begins to operate in the field of production. Because modern capitalism in the present monopolistic and restrictive stage of its development has failed to fulfil either of the two above objectives, the question of planning the economic life of a country has become a live issue of the modern world. The Bolshevik regime in the U.S.S.R. for the first time in our history gave the concept of economic planning a concrete shape. The world-wide trade depression which began in 1929 pushed the problem of planning to the front for the capitalist countries also. Then there was a sort of planning in the Nazi Germany also. The present world war with its total and totalitarian character has given the question of planning a new interest and importance altogether. We have our statesmen and our economists all over the world busy in the task of drawing blue-prints for post-war economic reconstruction. Even India has not lagged behind in this respect. There have been already published in our country a number of un-official plans (The Bombay Plan, The Peoples Plan, and the Gandhian Plan), and there are also a few official plans published by some of the Provinces and Indian States.* The Central Government has so far issued two reports on post-war

*So far as India is concerned the idea of planning in fact was first conceived in a practical way by the I. N. Congress which appointed a Planning Committee under the Chairmanship of Pt. Jawahar Lal Nehru and which also functioned for some time. But, as we know, before its labours could bear any fruit its functioning was sabotaged by the political cycle that overtook the nation.

reconstruction and further work is said to be going on with much rapidity. It is thus clear that economic planning all over the world and in India also has been lifted from the domain of mere academic interest and discussion and, therefore, deserves our full attention.

What planning means?:—The first step in the discussion of planning is about understanding its meaning correctly. As the very dictionary meaning of the word (planning) implies, 'planning' in any sector of life and so in economics also it means the substitution of 'reason' for 'chance', of 'order' for 'anarchy', or atomism. It is of the essence of planning that there exists central co-ordination. Hence it is no more than mere hair-splitting to say, as Prof. Lionell Robbins does, that even under a *laissez faire* economy one cannot deny the existence of a particular plan based on individual initiative and market mechanism through which it functions. Therefore, whenever we speak of a planned economy our tacit implication is the institution of a central control and co-ordination by the government of the country over the economic life of society as a whole. Planning has, thus, been defined as "a coherently planned reconstruction of the nation's economic life for re-adjustment of the social order as well as imaginative development of the land." Prof. L. Robbins gives the following comprehensive definition of economic planning which may be profitably quoted here: "A system of economic organisation in which all individual and separate plants, enterprises, and industries, are treated as co-ordinated units of a single whole for the purpose of utilizing all available resources to achieve the maxiumum satisfaction of the needs of a people within a given interval of time. The essential features are the dependence of each productive unit upon the entire system, and the existence of some unifying centre which can consciously shape the purposes of the economic system and decide upon the proper use of its separate and distinct elements." Planned economy,

therefore, means much active participation by the State in the direction of the nation's economy.

Planning to what end?:—From the fact that economic planning has been practised by the Soviet Russia on the one hand, the Nazi Germany on the second, the capitalist U.S.A. on the third, and even the bureaucratic government of India thinks of some kind of post-war reconstruction of the country, it should be clear that planning can be made to serve a variety of ends. Hence, it is a question of most fundamental importance that the planning of a country's economic life should be undertaken to what end or objective? Unless a satisfactory answer is given to this question, the whole work of economic planning may result in little or no advantage to the people of a country. It is also important to remember in this context that the end of economic planning is not to be fixed in economic terms only. Ultimately it is the whole man that concerns us, and, therefore, while considering the organisation of a particular department of human life we have not to forget that it does not run at cross-purposes with the requirements of the whole. Our aim and objective of economic planning, thus, can be no other than that of contributing to the greatest possible extent to the development of the (social) personality of every individual in society. This means not only the satisfaction of his more primary and basic needs of life, as food, clothing, shelter, etc., but also of those finer and cultural needs in the satisfaction of which only lies the ultimate end and the final meaning of human personality. It is thus not only a question of multiplicity of wants, but also of their refinements, not only of wealth but also of welfare, not only of employment but also of leisure. It is, to sum up, a question of striking a harmonious synthesis between the material, moral and spiritual values of life. To put the same thing in a more clear cut fashion we may say, that planning to be fruitful must fulfil the triple objective of security, freedom, and

leisure. From an economic point of view we want security against want *i.e.*, an efficient standard of living; politically and morally we want freedom; and for our spiritual and cultural development we need necessary leisure. It should thus be clear that in devising a scheme for economic planning our watchwords should be Security, Freedom, and Leisure.

The choice of alternative forms of economic system :—Another important question that faces the students of economic planning is regarding the type of economic organisation that should be established. "There appear to be only two economic systems from which to choose": (*i*) The system of State ownership, (*ii*) The system of private enterprise. "Between these two systems there can only be a medley of the two. There cannot exist anything which is distinct from these as an economic type or organism." From the point of view of planning there is an essential difference between the two systems. Under the system of state ownership, the government has full possession over the economic resources of the country and hence can plan by direct administration. Under a system of economy, however, where private enterprise plays an important rôle, the government has to plan not through direct control but through compensating for, supplementing to, stimulating or restraining the un-co-ordinated efforts of private producers. Naturally planning under private enterprise playing an important rôle in the economic life, cannot be so efficient as under state enterprise. About the difficulties that planning under private enterprise may have to face J. R. Bellerly in his 'Economic Reconstruction', Vol. I writes "Evidence accumulated that a series of political, industrial, and social barriers would be raised against any plan designed under Private enterprise, and that although each separately might not be insuperable, together they present a most formidable barrier". It is not possible to discuss the difficulties of planning under

private enterprise at any length at this juncture. But from the nature and kinds of control, planning under private enterprise would involve, some idea and indication of these difficulties may be given. To ensure planning for full employment in a system of free enterprise, "all parts of the plan fall within the three following categories—(*i*) expansion of consuming power, (*ii*) the fixing of a firm upper limit to prices, (*iii*) and special schemes for absorbing local unemployed and for regulating investment." (J. R. Bellerly). Similarly another writer discussing controls in a planned economy argues that controls would be necessary for maximisation of production by preventing the diversion or wastage of scarce resources, for regulation of prices and incomes so as to prevent inequitable distribution of wealth, and also for standardization and regulation of wages, stabilizing industrial relations and securing full employment. Now it is impossible to carry out all these controls successfully unless and until the private producers are ultimately willing to co-operate. Whether such a co-operation would be coming from their side is a matter of great doubt. There would always stand the danger that private enterprise may play the rôle of a fifth columnist and sabotage from inside the whole scheme of planned economy for the country. It is also to be remembered that in a planned economy whose aim is not only to secure full employment for all but also maximum efficiency in production and equity in distribution, socialisation of industries would have to go much farther than might be necessary in case only full employment were our aim. Arguing from the view-point of full employment only, G. D. H. Cole in his 'Means to Full Employment' finds it necessary that the socialised sector of a country's economic life must at least include the group of industries which are known as the 'capital-goods using industries' and which include housing, civil engineering, transport and public utility industries. But as already remarked for

maximising efficiency in production, and minimising inequity and exploitation, a large number of other industries would have also to be socialised. All the defence and heavy industries will have to be included in this category. How far state control short of complete socialisation stands in the way of efficiency has been fully demonstrated by the experience of Britain during the present war where a sort of state capitalism has actually come into existence. Thus it may be concluded on the basis of our discussions so far that from the stand-point of society's welfare a fully socialized economy is much better than a hybrid economy in which private enterprise predominates and state-enterprise exists only as a supplement to fill in the gaps and loopholes of the former. Thus state-enterprise functions as a second fiddle to the exigencies and requirements of private capitalist enterprise. Obviously the only aim of this type of planned economy can be to perpetuate capitalism which in its present stage of development cannot otherwise stand on its own legs. This is also the reason why capitalists and their academic advocates are in favour of not a fully socialized economy but of a sort of economic dyarchy including on the one hand "the state ownership of a sector of production and banking" and on the other a parallel sector of economy operating under a system of free enterprise. We cannot cast our vote in its favour should be a foregone conclusion, however.

The claims of Gandhian economy:—The fully socialized economy, which we have preferred to an economy predominantly worked on private enterprise, has also its critics and sceptics. These critics belong not only to the class of capitalists and their supporters, but also to a different one who are not in favour of modern capitalism, but in fact are its great opponents. Gandhiji and people belonging to his way of thinking belong to this class. We may call them the Gandhian school of economics. This school of economists is opposed not only to the capitalist form of

industrialism but to industrialism of the modern mechanised type itself. In order to fully appreciate their view-point it is necessary that we understand the background of Gandhian philosophy. Gandhiji has certain eternal values of life which he is not prepared to give up at any cost. These values are truth and non-violence, the first being the end of all existence and the second being the means through which the above end can be achieved. It is in keeping with these values and their promotion in society as a whole that he wants to establish a socio-economic order. Gandhian economists are opposed to capitalism because it is based on violence which is only another name for exploitation, but they do not see any end of violence even when socialization of means of production is achieved. Their reasoning is quite simple. They argue that modern large-scale industrialism whether operating under a socialized or a capitalist economy means a large concentration and centralization of power in the hands of those few men who are at the key posts and who guide and design the whole work of production and distribution in society and there can be no guarantee against this centralized power not being used against the comman man. The result of all this may mean the substitution of a managerial rule for the present rule of the capitalist, and the ordinary worker may remain in as much moral serfdom as before. They, therefore, argue in favour of cottage industrialism with a much more simple organisation of economic life so that every one may feel a sort of real freedom and independence. They are against large-scale industrialism also on the ground that work in a modern factory reduces the worker to the position of a mere machine tender and there is no opportunity for the development of his personality in such a work. Now so far as these criticisms against modern industrialism are concerned, no one can deny that there is much truth in them. But we have not to carry them to the extreme. First, because even in large-scale industrialism

with concentration of power the ordinary man, with necessary vigilence and a suitable machinery of maintaining democratic freedom, which is after all not impossible to devise, can to a great extent effectively minimise the dangers arising out of misuse of power. Secondly, it is no use idealising all cottage-industry work as conducive to the development of personality and condemning all machine work as oppose to it. Then, we have also not to forget that for maintaining sufficient production required to keep the growing numbers in a state of efficient standard of life with necessary leisure, large-scale production may be necessary. The predilections of the Gandhian school in favour of a simple way of life and sanctity of human labour are further reasons for their emphasis on cottage industrialism, and also, to an extent, provide an answer to the slogan of working for an ever-increasing standard of living and justifying large-scale production. There is also the special condition of our own country which further lends support to an economy which is based on greater use of human labour and consequently less of labour-saving machinery. Thus, in summing up, we can say that the Gandhian economy has in its favour the point of emphasising the need to guarantee freedom to an ordinary individual in society on the one hand and of offering greater chances of immediate full employment for our large population on the other. It also has the further advantage of emphasising a certain class of values in life based on simplicity of living and dignity of labour which appear to be a necessary corrective to the present order of society with its battling complexity and craze for multiplication of wants. In fairness to the Gandhian economists, it should also be mentioned that though on the one hand they advocate cottage industrialism so far as the supply of consumption-goods is concerned, on the other they also admit the need for the development of a few basic or key industries for the country. In this class are included the Defence industries,

the Power industries, the Mining metallurgy and forest industries, machinery and machine tools industries, heavy engineering industries and chemical industries. All these industries are to be owned and operated by the State. Similarly among public utilities need for railways, and aeroplanes is not unrecognised. Hence we have to conclude so far as the claims of Gandhian economics are concerned with the remark that it supplies us with much that is valuable for the future re-organisation of not only our economy but our social life as a whole.

The future order of economy to be a synthesis of Socialist and Gandhian economics :—From our discussion so far, our conclusion about the type of economic organisation that we should choose as the basis of our planned economy in future is that it will have to be of a form that is the synthesis of the socialist and the Gandhian types. Their difference lies not in advocating by one what the other condemns but in emphasising by one what the other may just neglect. Thus one is a necessary supplement to the other and the genius of India will have to perform the task of working out a synthesis of the two in the field of practice rather than theory. It is only on this basis that we shall fulfil the triple objective of planning that we have set before us—security, freedom, and leisure or material, moral, and spiritual prosperity of mankind.

National self-sufficiency our main basis :—An important question about the planned economy in India is whether the basis of our planning should be national self-sufficiency or international economy. Now there is much loose thinking in this connection prevailing at present. It goes without saying that the larger is the area over which a co-ordinated plan of economic development operates the better it is. From this point of view a co-ordinated scheme of planning with the whole world as one unit would be the most desirable thing. But an essential condition for the working of a world-wide planned economy would

be the existence of a world state. The implications, of such a world state would be that the economic resources of the world as a whole would be available for the citizens of the world without any distinction between them. The backward areas of the present would have as much claim for uniform development as the most forward ones, and to maintain a uniform standard of living throughout the world the more prosperous ones will have to subsidise the less prosperous. Thus the world state would mean a real brotherhood and partnership not only in common prosperity but also in common want. But so long as such a world state is not there, all talk about international economy is purposeless. It can under the present circumstances mean only an arrested development of backward countries like India and China. Therefore, we are definitely of the opinion that planned economy for India must be built up on the basis of national sufficiency largely. This would not mean economic isolation or no international trade. All that it implies that we have to so make use of our national resources as to give us the optimum results without in any way having imperialist designs over other countries of the world. This ideal of national self-sufficiency is desirable from the point of view of isolating our economy from the hazards of international capitalist imperialism on the one hand and national autarchy on the other. The basis of national sufficiency for our economy makes one more point clear. It is that we have to plan in a unified and co-ordinated way for the country as a whole—British India and Indian States all included. Neither the provinces nor the states should be permitted to plough their lonely furrows and work at cross-purposes. There must exist one integrated and well-knit plan for the country as a whole and the various provincial, state and other regional plans must be in keeping with the All-India policy.

National freedom the first condition for planning :—So for we have discussed the main principles on

which economic planning in India should be carried on. It is not necessary to discuss here the question of means in detail. This does not mean that the problem of means is any the less important. But if our objectives and principles are well-defined and fixed, we shall not find much difficulty in devising correct and effective means also. Neither the difficulty regarding finance nor regarding the setting up of a suitable machinery for carrying on the work of planning would prove insoluble. The economic development of a country is ultimately determined by the men and material resources of the country in question and money is only a lubricating oil to keep the wheels of production going, though to prevent it from acting as a fifth cog in the wheel it does require a vigilant and expert handling. The machinery for carrying on the work of actual planning must be on the one hand free from the day to day interference of the politician and on the other its functioning must be based on the free support of the masses. The whole nation should feel its responsibility in not only carrying out the plan but also in devising it and the functioning must be through the well-known method of 'trial and error.' Now all this is possible only when we become the real and effective masters of our own destiny. In other words for planning of the type we conceive it is necessary that we achieve national freedom and a really effective people's state is established in the country. Unless this is possible, no question of planning so as to be in the interest of the people can arise.

Need for a planned economy in India :—That India stands in the terrible necessity of a planned economy, is more than proved by the condition of veritable mess in which our national economy at present is found. We are the poorest people in a rich land. In the matter of food as much as in that of clothing, housing, education, and medical relief, even the minimum requirements of our people remain unsatisfied. A few statistics may be quite

revealing in this connection. The latest estimate (1931-32) of an average per capita income for British India has been put at the very low figure of Rs. 65/- per annum. The real income, however, of over 70% of our population is much less than this average. Prof. J. C. Kumarappa in his Report of the Industrial Survey Committee of the Central Provinces and Berar says, "We may safely say that the per capita income per annum in the province would be in the neighbourhood of Rs. 12/-." (Part I, Volume I, page 6, quoted in the Gandhian Plan, page 57). The figures of per capita income in other countries are:

Country.	*Year.*	*Per capita income (Rupees).*
U.K.	1931	1,013
U.S.A.	1932	1,186
Germany	1925	520
Japan	1925	176
U.S.S.R.	1925	133

(From the Gandhian Plan, page 58).

In the matter of food the position in India was summed up by the Director General, Indian Medical Services in the statement that 39% of our people are well nourished, 41% are poorly nourished, and 20% are badly nourished. "The diet of the bulk of Indian population is very ill-balanced and deficient in caloric value. The balanced diet of an adult will yield approximately 2,600 calories, which are necessary for the maintenance of normal health. According to Dr. Aykroyd, the value in calories of the common ill-balanced diet (in India) is not more than 1,800. This too is perhaps an optimistic estimate." (Gandhian Plan, page 55). Dr. R. K. Mukerjee has estimated a food deficit in our country for about 10 to 12% of our population in his Food Planning for 400 millions. Coming to the consumption of clothing the position in the country is equally bad. India consumes only 16 yards of cotton

textile per head of population as against 64 yds. in U.S.A., 34 in Germany, 21 in Japan, and 19 in Egypt. The housing conditions in the country reveal a similar tale of woe. So far as education, health and sanitation as well as medical services go, the existing unsatisfactory state of affairs is also not a matter of any doubt. For example, according to 1941 census, only 12% of the population in India is literate whereas figures in some of the other countries were:

Country.	*Year.*	*Percentage.*
U.K.	1921	76.1
U.S.A.	1920	74.5
Canada	1921	71.6
Germany	1925	80.5
France	1926	80.1
Japan	1925	71.7

(Gandian Plan, page 88).

In the matter of medical facilities, an idea of our existing position can be gained by the fact that the number of hospitals and dispensaries in the country stands at about 7,000 only, and the number of practising doctors is estimated at about 42,000 which means one doctor for 9,000 persons. The total number of nurses is only 4,500 *i.e.* 1 nurse for 86,000 persons. In Britain there are 109,500 nurses and 61,420 doctors, *i.e.* 1 nurse per 435 persons and 1 doctor per 776 persons. (See Gandhian Plan, page 87). All these facts are proof positive of the great economic backwardness of our country and if as a people we have to raise ourselves out of this abysmal poverty, the only way to do it is of raising the standard of national production on the one hand and ensuring equitable distribution on the other. Because production and distribution are so much interdependent that without solving one the solution of another is impossible. Now all this needs a well-thought out

programme of planned economy for the country. Let us, therefore, discuss the main planks of such a programme.

Main planks in a planned economy for India:

(*i*) *Agricultural planning*:—Agriculture is the basic industry of our country, nearly 70% of our population depending on it for its subsistence. Hence the importance of rehabilitating our agricultural industry is obvious. The main points in such a programme of rehabilitation would be :—

(*a*) Nationalization of all land including the abolition of the existing Zamindars with a fair compensation paid to them; the land to be leased out to actual cultivators in economic holdings either for individual or co-operative or collective farming on payment of a fair land tax. Thus there will be left no middlemen between the actual cultivators and the state.

(*b*) Liquidation of the existing rural indebtedness so as to free the cultivator from usury and organising a sound and rational system of rural finance.

(*c*) Carrying out of various measures for improving the yield of our land. They would include better irrigation, prevention of soil erosion, flood control, crop planning, better manure, permanent improvements on land, better seeds, and better implements.

(*d*) Extending the area of cultivation by reclaiming the 'cultivable waste' which is estimated to be about 170 million acres.

(*e*) Cattle improvement.

(*f*) Improved marketing of agricultural produce.

(*g*) Agricultural insurance covering famines, floods, water shortage, frosts, pests and cattle diseases.

(*h*) Development of agricultural subsidiary industries so as to supplement the income from agriculture proper,

(*ii*) *Industrial planning* :—Industrially India is almost an undeveloped country. According to 1941 census figures, only 16.3 million persons out of a working population of 170 millions and a total population of 389 millions were engaged in industry. This gives a percentage of 9 to working population and 4.2 to total population. Out of this the percentage of factory labour is still less, about 4 million people being employed in factories using mechanical power. This shows that India has to make up a great leeway in the field of industrial development of the country. The importance of industrial development is manifold. First, if we have to raise the standard of living of our people, industrial development of the country is necessary. Secondly, in the modern world industrialisation is the first condition of effective defence of the country. Thirdly, our economy at present is extremely unbalanced and a better occupational distribution of our population is our first necessity. A large number of people at present drawing their subsistence from agriculture must be released for employment elsewhere as a result of agricultural rehabilitation in the country. It goes without saying that industrial development must offer part of the employment required for the people so released from land. Thus agricultural and industrial development of our country are inter-dependent. The main points in a programme of industrial development would be :—

(*a*) *Development of the following Basic Industries*—Defence Industries, Power-Hydro and Thermal Electricity, Mining, Metallurgy, and Forestry including Iron and Steel Industries, Machinery and Machine tools, Heavy Engineering such as ships, Locomotives, Automobiles, and Air-craft, and Chemicals such as Heavy Chemicals, fertilisers, and pharmaceuticals, and Cement.

(*b*) *Development of consumption goods industries*—Textiles, Glass industry, Leather goods industry, Paper industry, Tobacco industry, Oil industry etc.

(c) *Development of small scale and cottage industries in the field of consumption goods.* Here a difficulty arises. On what basis should we decide the respective claims of small scale *vs.* large scale industries in the production of those goods which can be produced on either basis? The one criterion that we can adopt to solve this difficult question is purely technical. "Given the volume of capital available and the available supply of labour, there is an optimum 'round-aboutness' of method of production, or as we may call an optimum 'technological time-preference'. If the planning authority uses too crude technology, there would be shortage of man power; on the other hand if it uses too advanced technology, there would be surplus of man power. The optimum 'round-aboutness' or 'technological time preference' would be such that there is neither surplus nor shortage of man power. Only with this round-aboutness, could we achieve maximum economy of capital. The planning authority will determine the representative 'technological time preference' appropriate at any particular stage of the Plan. This will automatically determine the place of cottage industry, small scale industry, and large scale industry in the plan at that particular stage." In simpler language, the problem of the relative place of cottage industries in the economic plan should be considered strictly on the basis of relative supply of labour and capital in the country. From a technical point of view it would lead to maximum production with the available resources. But the problem has a non-technical and non-economic aspect also which we cannot neglect. As Gandhian economists have been emphasising, cottage industries have certain socio-political and cultural advantages. They ensure decentralized initiative in production which not only results in automatic equitable distribution of wealth, but also gives a sense of freedom to the individual producer and an opportunity for the development of his personality which are absent in case of large

scale production. The dangers of centralized power are also out of question in case of decentralized production. And it is for all these reasons that the Gandhian school of Economists have advocated a kind of planning, known as "Horizontal planning", which is different from the socialist planning. The central idea in such a planning is to keep in the main the frame work of handicraft-economy but at the same time to leave room for state enterprise at those strategic points of our economy where large-scale and organised efforts are necessary and inevitable. It is different from a socialist economy in the sense that the state does not pervade the whole of the productive activity but comes in only at certain points. For example, under horizontal planning iron and steel or lumbering industry would be run on a large scale and on a nationalized basis, but the products thereof as iron, steel or wood would be used by independent artisans in producing consumers' goods from them. Similarly in the fields of research, experiment, marketing, and provision of capital, where the artisan cannot solve the problem single-handed, the co-operation and aid of the state must be taken. Thus the essence of horizontal planning is to seek the intervention of the state at certain well-defined vantage points. This sort of planning has to be appreciated against the background of a whole philosophy of life which deserves our attention quite seriously in the present machine-ridden, speed-ridden, and war-ridden world. All that we can say at this juncture, however, is that the place of cottage industries in the future plan of India's economic development shall have to be decided not only on the basis of economic or technical consideration but also on that of socio-politico cultural considerations to some extent.

(*d*) *Control of industrial localization.* One of the most undesirable facts about the large-scale industrialization of our country has been the concentration of industries in the two provinces of Bombay and Bengal. The present

war has aggravated this tendency to a great deal. A further aspect of this defective localization is that of giant cities like Bombay and Calcutta growing more and more populous. Hence an important aspect of industrial planning in the country would be concerned with preventing unnecessary localization of industries and thus avoiding the evils of concentration, over-crowding, and slums. Thus delocalising, and dispersing the machine industries in scattered towns and villages will form part of a conscious direction of the economic system. Attention on regional self-sufficiency in so far as economic and desirable will have also to be given. In delocalizing the machine industries, it must be pointed out, for example, that it would be both desirable and profitable to disperse a number of agricultural industries as sugar-refining, flour-milling, oil-manufacturing, cotton, gi ning and manufacturing factories, to areas producing the respective raw materials.

(*c*) *The question of state-ownership.* A question of basic importance concerning the industrial planning of our country is about state *vs.* private ownership. So far as our ultimate ideal goes, we are definitely of the view that with the exception of those small scale industries which are run by independent handicraftsmen with the help of the members of their families and without employing any wage labour, all industrial production must be carried on under state-ownership, control and management. But we are conscious of the fact that some time will have to lapse before such a consummation would take place. We visualize the ultimate ideal to be reached in the following stages :—All the defence and other basic and key industries as well as the public utilities must be immediately brought under state ownership and operation. All new industries, whether basic or consumer's goods industries, to be established in future must be state-owned and operated. The existing consumer's goods industries working on the private enterprise basis must be gradually taken over by

the State with reasonable compensation paid to their present owners. Till they are so owned and operated they must be strictly controlled by the state in the people's larger interests.

(*iii*) *Planning in other sectors of economic life*:—So far we have discussed planning in the two main sectors of our economic life. But for planning to be complete and fruitful, other sectors of our economic life should not be neglected. Thus planning will have to be extended to all of them. Our trade, tariff, and public finance, our banking and our currency, all will have to be planned so as to fit in with the general scheme of planned economy that we decide to adopt for the country. In the matter of trade, so far as foreign trade is concerned it must be State monopoly, while internal trade will also need a complete re-organisation in such a way that state or co-operative trading increasingly replaces individual trading. And to the extent individual trading continues it will have to be strictly controlled by the state so as to eliminate what is known as middle-men's profiteering. This would require fixing up of prices by the State at different stages of the turnover of goods and services. Another important point in our trade planning has to be one of evolving such economic regions that so far as possible goods and services locally produced are also locally consumed. Thus minimum of trading activity would remain necessary.

Similarly to the extent there is the need in the interest of working out our planned programme of economic development a sound and suitable policy of national tariff and other forms of protection to industry and agriculture will have to be evolved. The rôle of public finance in a planned economy would also undergo a radical change. Many orthodox principles of public finance will be thrown to the winds. Unbalanced budgets and public borrowing to finance schemes of national reconstruction would not remain a scare they are to-day. New items of expenditure

as on public utility and social services will have to be incurred and new resources will have to be found to meet those expenses. The management of country's currency and banking would be in State hands and for these as well as other purposes of our national plan. The country's banking resources will have to be effectively tapped and broad-based, banking and credit facilities would have to be greatly extended. So far our currency and exchange have met the needs of a foreign government concerned more with treasury requirements and maintenance of exchange stability at the cost of internal stability of prices and national economic development. But in a planned economy, the needs of nation's trade, industry and agriculture would be the only guiding factor. The unholy wedlock at present existing between England and India in the sphere of currency will have to be brought to an end so as to have the necessary freedom to follow an independent course of action.

(*iv*) *Planning for educational, social and cultural amenities of life*:—Man cannot live without bread, but he cannot live with it only. A civilized existence includes full facilities for free education of all kinds and in all stages adopted to the needs of the development of an individual's personality, for maintaining an efficient standard of health and sanitation of the population both through preventive as well as curative means, and for necessary recreation and travelling through the organisation and extablishment of village clubs, Bhajan mandals, and other cultural and recreative associations for the former and development of all kinds of transport, railway, road, and water, and postal and allied facilities for communication for the latter. The country's planning authority will have to look to the provision of all these educational, social and cultural amenities of life to the people. Here means of transport and communication have been included in the category of social and cultural amenities, but their importance is great from econo-

mic as well as defence point of view also. Thus a well-planned programme of not only railway and road transport but of water and sea as well as air transport will have to be framed and worked out. In the supply of social amenities the need for adequate water-supply and electric light has also to be realised. Thus planning will have to cover these non-economic sectors of our life also.

(*v*) *Planning in the distribution of the national dividend*:— Last but not least is the question of an equitable distribution of our national income. And planning would have gone amiss if it were to neglect this all important problem. Our concern in this respect is that every individual gets the necessary income to lead at least the minimum standard of living supposed to be necessary for his full development of personality. We have not to forget that modern capitalism has failed more on the bed-rock of inequitable distribution than on any other. Hence our planning authority will have to be particularly careful about this aspect of planning. Following steps are important in this connection :

(*a*) Passing of a minimum as well as maximum wage legislation to be enforced for every worker and sufficient to provide him with the 'national minimum' so far as the former goes.

(*b*) Passing a national insurance scheme of social security to provide against temporary unemployment, sickness, accident, invalidity, old age, and widowhood.

(*c*) Provision of facilities for training for alternative employment. It means that if a worker has lost work in one kind of employment and cannot again get the same kind of work, he must be trained for a different kind of work so that he may be gainfully re-employed.

(*d*) The ultimate aim of planned economy must be to end all unearned income, *i.e.*, the capitalist principle of income acccruing by mere ownership must not be allowed to function at all. Thus steps should be taken to progressively diminish the share of national income going to owners only. Till total abolition is possible such share must be controlled and limited by the state by fixing a maximum interest rate as well as profit rate for private producers.

(*e*) Steps must also be taken to see that the actual consumption by the masses takes place in the direction of procurring better food, better clothing, better housing, and a larger measure of all services, utilities, and amenities.

Our concluding remarks :—In the foregoing pages we have discussed in general terms the principles and policies underlying a planned development of Indian economy. It is a stupendous task equally urgent which the nation will have to take up with all its vigour, foresight, and creative genius, if our present terribly miserable lot has to end. There is not the slightest doubt that India is fully equipped to fulfil the demands of its destiny provided her present political handicap disappears. So far, however, as a fully democratic government is not in effective power in the country, there can be no question of planning on the lines we have here discussed to be translated into action. Till then all discussions of planning are bound to remain of more or less academic interest. But the immediate future presents us with another danger also. All this talk about planning in the country after the war not only in non-official but in official circles also is not going to end in nothing. Something in the name of planning, post-war India would certainly experience. Now the type of planning is always determined by the colour of the government in power. Our capitalists are anxious to develop industries in the country. The Bombay Plan envisages such a development. There is every possibility that just after

the war the future government of India though under British Control may arrive at some compromise with our capitalists and some agricultural and industrial development in the country may take place. But how much of the benefit of such a development would go to the masses, only future would reveal? The task before nation's leadership would be to see that the claim of the masses does not go by mere default.

APPENDIX No. 1.

AGRICULTURAL INDEBTEDNESS IN INDIA

At a time when schemes for the future planning of the economic life of the country are engaging the attention of our economists, industrialists and statesmen, it would not be out of place to focus thought on the solution of one of the most stupendous economic problems that face us to-day, the problem of India's agricultural indebtedness. Because no scheme for the economic development of our country will be worth its name unless it envisages a solution of this problem on sound and practicable lines. It is also a fact that in spite of the rise in prices that the present war has brought about and the resulting benefit to our agriculturists to an extent, the problem of agricultural indebtedness is as grave as ever. Whatever relief the rising income of the agriculturists has brought in this connection is nothing in comparison to the vastness of the problem. And unless a sound and systematic policy is adopted by the Government to check the onslaught of the post-war slump, the danger that in the post-war period the situation may worsen a good deal is already there. Hence the urgency of the problem of our agricultural indebtedness is great and demands that our economists and our statesmen should set themselves thinking anew on this all-important question.

It is not the purpose of this brief article to enumerate the common platitudes, with which every schoolboy is acquainted regarding the causes of this indebtedness or the efforts that have been made so far by different Provincial Governments since the thirties of this century towards its solution. The point that specifically concerns us at this juncture is that in spite of all that has been attempted in the past, the problem persists in all its seriousness and some more far-reaching attempts towards its solution have to be undertaken.

Broadly speaking, the problem of agricultural indebtedness has a two-fold aspect. First, there is the question of relieving the agriculturist from his existing debt and his economic serfdom to the money-lender. Secondly, he is to be prevented from falling a prey to the same miserable lot in the future. The latter aspect of the problem for its effective solution depends among other minor points on two major factors, turning agriculture from a depressed industry, which it is to-day, to an economically prosperous one so that the income of the agriculturist may increase, and reorganizing the existing machinery of rural finance on sound and scientific lines so that the financial requirements of agriculture may be satisfactorily and adequately met. We shall not be concerned here with this object of the problem whose solution integrates itself into the question of reorganizing the whole economic life of the nation on lines fundamentally different from those now existing.

Coming to the first aspect of the problem, some general and broad principles on which an agreement would be necessary should be formulated before any actual scheme can be possibly evolved. They may be mentioned as follows:—

(1) Any scheme relating to repayment of debts should be based on the existing repaying capacity of the agriculturist. In other words, increase in his future income due to improved agriculture should not be diverted to the repayment of existing debts, otherwise the agrculturist will have little enthusiasm in taking to improved methods of cultivation.

(2) All debts in regard to which the creditor can render no satisfactory account kept in writing and the agriculturist shows disagreement should be declared as repudiated.

(3) If the creditor altogether has already received at least double the amount of the principal, he would not have any further claims on the debtor.

(4) The term 'agriculturist' will include all persons actually engaged in cultivation either on their own lands or on those of others. Landless labourers would thus be covered.

(5) The scheme should be framed and enforced by the Central Government for the whole of the country.

It is on the above principles that some scheme to solve the agricultural indebtedness of the country may be evolved. The whole of the agriculturist population of the country should be classified into two clear-cut divisions. The first category should include those persons who, looking to their present incomes, can be said to have no repaying capacity at all. The criterion will be that under the existing circumstances agriculture provides them hardly with bare necessaries of existence. All such agriculturists should be relieved of the burden of their existing debt by means of a Government order. No vested interests should be allowed to stand in the way of such a revolutionary solution. In the second category would come all those agriculturists who would repay their debts in easy instalments according to their repaying capacity but in no case more than the amount that would be double of the principal of the loan. The repaying capacity of an agriculturist would be calculated on the basis of his present net savings which would be left after meeting his day to day needs and other necessary payments of revenue etc., and would be taken to equal ten times such annual net savings. The Government would take upon itself the responsibility of repaying all the debts of the agriculturists so calculated to the creditors, thus so far as the agriculturist is concerned, he would be relieved from the clutches of the money-lender. The Government may pay the money-lender in lump sum or in instalments or in both. This would depend upon the convenience of the Government. Interest bearing bonds, redeemable or irredeemable, may also be issued to the creditors for part of the loan. The agriculturist will repay the amount to the Government in easy instalments.

It is on some such lines as mentioned above that the stupendous problem of agricultural indebtedness can be solved. It is no argument to say that the scheme as envisaged here is too revolutionary to make it practicable. It is not at all claimed that the above is a full and detailed scheme which would require no change or modification before putting it into practice. All that is suggested is that it is in some such over-hauling direction that steps will have to be taken to solve the problem of indebtedness. Our economic organization has reached the stage of complete exhaustion. Bengal is a living example of this rotten stage of affairs. Mere patch work would not now meet the demands of the situation. It is a big problem that faces us, and by thinking in a big way only we shall succeed in nearing the solution.

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